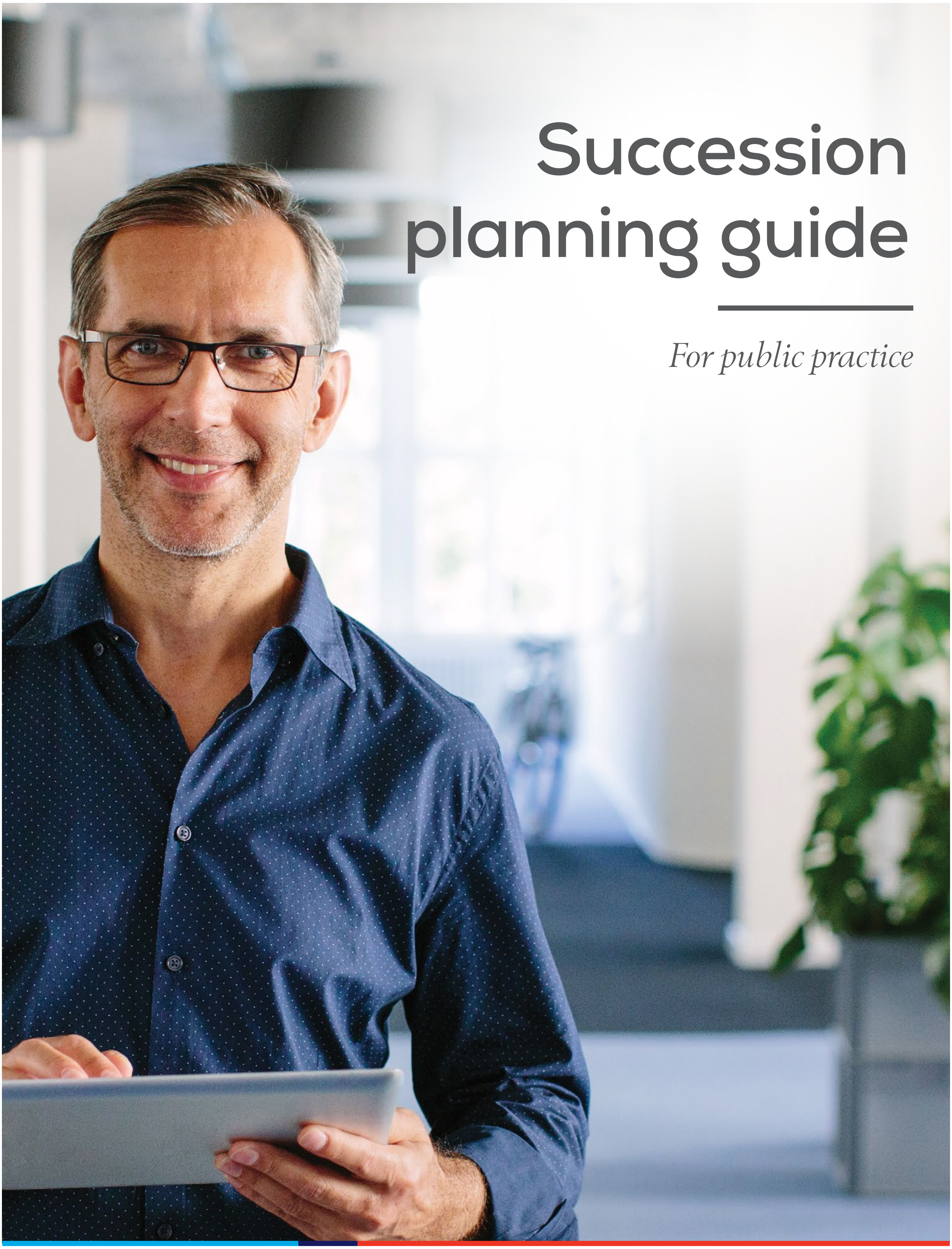

Succession planning guide

For public practice

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Contents

Introduction

This document guides Chartered Accountants through the process of planning succession for their public practice. If you are a partner in a small-to-medium sized practice, then this guide is for you.

Succession planning is absolutely essential for all public practices. It includes thinking about your long-term personal and professional goals, and plotting a path to achieve those. It also includes contingency planning for the uncertainties in business and life. For example, you and those close to you need to know what steps to take if you (or another practice partner) become unexpectedly incapacitated.

Every public practice has its own unique qualities, clients and objectives. Every Chartered Accountant who runs a public practice is unique too. We all have individual hopes and goals for our future. For this reason, succession planning is not a prescriptive "box ticking" exercise. It requires reflection upon your own personal circumstances and priorities.

This guide offers some factors to consider in your succession planning, and also raises some questions you need to ask yourself.

The principles behind this guide are:

- Succession is a major milestone in your life, and in the lifecycle of your public practice. Time invested in a succession plan is time well spent.
- It makes good business sense for every public practice to have its own documented succession plan. In fact, it is absolutely vital.
- The earlier you start succession planning, the better the outcome will be – for you, your family, your colleagues and your clients.
- There are several benefits of succession planning that go beyond the decision to sell a business or retire (see 'Benefits' section).
- A succession plan needs to be discussed with relevant parties – and a comprehensive written record must be made of everything that is agreed.

3%

In a 2014 Global Accounting Alliance survey of public practices worldwide, only three per cent of sole practitioners said they had a succession plan. However, 84% said their intention upon retiring would be to sell their practice.

Benefits

Succession planning offers significant advantages:

- **Revenue:** You can put steps in place to maximise the value of your practice. It requires planning to build and grow your parcel of fees into a saleable asset.
- **Greater certainty:** You are giving your family and colleagues clarity and peace of mind about the future.
- **Tax efficiency:** Considering tax implications of insurances and payouts now will help you achieve efficiencies later on.
- **Business hygiene:** You are prompting yourself to consider issues that many small business owners struggle to find time to focus on, such as strategy, profitability, client mix etc.
- **Rational thinking:** Life can throw unexpected challenges at you and, in the heat of the moment, this can impair your ability to make rational decisions. By conducting contingency planning now – with a clear head – you can make considered and calculated decisions, just in case the worst happens in the future.
- **Staff retention:** Some forms of succession include incentives for high-performing employees (such as a path to partnership) which makes it more likely they will remain working at your practice.
- **Investment:** You can ensure bank and guarantor issues are appropriately managed.
- **Continuity:** You are paving the way for a smooth change of ownership.

We all have individual hopes and goals for our future. Succession planning requires you to reflect upon your own personal circumstances and priorities.

Not optional

If you are a member of Chartered Accountants Australia and New Zealand and you run a public practice in Australia, then succession planning is not optional. APES 325 Risk Management for Firms made it a mandatory requirement from April 2018 to have a documented succession plan in place. While it is not yet a mandatory requirement in New Zealand, having a succession plan still makes good business sense.

Risks

According to a 2018 Business Fitness report, 75% of surveyed practices did not have a documented succession plan. If you haven't got a succession plan, then your long-term aspirations (such as a comfortable retirement) may not be achievable and the people close to you could suffer; particularly if your exit from the business is sudden or unexpected.

If the worst happened, would your family and your colleagues know the answers to these questions:

- In your absence, who will pick up your existing and ongoing work, projects and engagements?
- Do your clients know and trust anyone else in the practice besides you?
- In a market saturated with Baby Boomer accountants selling practices and retiring, is your practice a saleable asset?
- What guarantees has the bank relied upon to provide loans or overdrafts to your business? How would the death or disability of a guarantor affect this?
- Who has the majority interest in your public practice? Are they qualified, available and willing to immediately step into your shoes?
- Has an independent valuation been conducted of your practice, or your share of the practice?
- What is a reasonable payout for your family, if the other partners wish to purchase your stake? How would the other partners finance this?
- Is there a written record of all current and future business development opportunities, including current status and next steps?

A well-constructed succession plan will consider these sorts of issues, so that you, your family and your colleagues are prepared, even if your exit from the practice comes at an unexpected time.

Getting started

Preparing a succession plan starts with identifying your goals in life, and assessing your options to achieve those. This is not a technical exercise; instead it requires a process of reflection.

In considering your goals, here are some factors you might consider:

Personal goals

Setting long-term personal goals can impact the timing and focus of your succession plan. The timing is likely to be impacted by your assessment of your financial resources, health and family circumstances.

To help clarify your personal goals, try answering these questions:

- In the longer term, what do you want your lifestyle to look like? Do you want to travel? Spend time with family? Downsize your home? Participate in particular social activities?
- Are you (and those close to you) in good health, or deteriorating health? How might that impact your transition out of the practice?

56%

In a 2014 Global Accounting Alliance survey of public practices worldwide, more than half (56%) of surveyed employees said they were more likely to stay with a practice if they knew they would be offered ownership in the future. (And 52% said they were currently looking for advancement within their firm.)

Professional goals

Your professional goals will depend on your sense of identity and aspirations:

- Is this a practice that you have established, which carries a family name and which you want to see retain its current identity/brand?
- Are you comfortable walking away from the practice to pursue other activities?
- Do you want to retain some involvement in your practice, or none at all?
- Do you intend to work in a voluntary capacity for any community organisations?

Practice goals

In the context of succession planning, practice goals focus upon the long-term future of the business beyond your tenure:

- Is your desired lifestyle dependent upon revenue from selling your practice? If so, how much revenue do you need to raise? What opportunities are there to improve the value of your asset?
- During the transition towards your departure, how can you provide stability for your clients?
- Do you want to secure continued employment for existing staff after you depart?
- In the event of unforeseen health issues, who is equipped to manage the business and authorised to continue your current engagements in your absence?

Find the answers together

Preparing a succession plan is similar to drawing up a will for your business. In most cases, you are putting in place all of the necessary arrangements for life when you are no longer involved.

In the same way that spouses often draw up their wills together, a succession plan should include all the partners of your public practice. Having honest conversations up front, and documenting decisions, can make all the difference when a partner or partners exit the business. You may also identify long-term successors, and gauge their appetite for becoming a partner in future.

> ***Preparing a succession plan is similar to drawing up a will for your business.***

Similarly, in seeking to answer some of the personal, professional and practice questions above, you may want to discuss these with close family members.

It can also be helpful to involve external advisors. This could include assistance in setting long-term goals, advice on legal structures or even mediation if people involved in the succession planning process don't agree on crucial points. Certainly external legal advice should always be sought whenever you are entering into an agreement with other parties, including partners in your own practice.

Know your options

One of the key questions that your succession plan will answer is:
What happens to my business when I exit?

Don't assume that there is only one answer to this. Different solutions will suit different circumstances – and your circumstances will change over time.

Succession planning should therefore be flexible. Your preferred scenario may not come to fruition, so you should consider contingency options too.

Some of the options you might explore include:

- **Admitting new partners/shareholders*:** Identifying senior employees or shareholders who are "partnership material". (Note: Take care to consider leadership qualities, as well as technical expertise.)
- **Buyout by existing partner(s)*:** Your fellow partners may wish to purchase your stake in the business when you depart.
- **Rewarding senior employees*:** In practices structured as a company or unit trust, senior staff can be awarded a different class of share as a step towards becoming equity holders.
- **Merger or joint venture:** Forming a new business from your practice and another practice can be an effective exit strategy for you. This process can be complex and lengthy, and hinges upon finding an arrangement in the best interests of both existing parties. In this instance, due diligence investigations and independent valuations of each business are vital.
- **Sale of your client book/portfolio to a third party:** This approach can be appropriate if there is no-one within the practice who can take on your client base and/or deliver the specialist service you provide.
- **Sale of the practice to a third party:** Selling your entire practice to a buyer, such as another public practice. Depending on the buyer's resources, you may agree to assist with transitioning clients and employees.

* When considering the above options, consider any capital funding arrangements for incoming partners seeking to buy into the business. An assessment of whether your practice can fund the exit and entry of new partners/shareholders may also be conducted.

Succession planning should be flexible.
Your preferred scenario may not come to fruition, so you should consider contingency options too.

78%

In a 2014 Global Accounting Alliance survey of public practices worldwide, almost eight out of ten practice partners indicated that they would consider remaining as a consultant to the practice after transferring ownership.

Valuing your firm

Your succession plan should state clearly what process will be followed in the event that you decide to sell your practice, or your stake in it. Partners or buyers may have a subjective view on what the value of the practice is but there are many variables to consider when calculating this. The succession plan should identify the agreed method by which the practice will be valued, including details of any external consultants who have been selected to conduct the valuation.

You can find accredited CA Business Valuation Specialists using the Find A CA tool at charteredaccountantsanz.com/find-a-ca

Making decisions

Weighing up succession options really comes down to which ones best fit your goals. It also comes down to the circumstances of your particular practice.

To help you clarify this, you might consider the following factors:

- What is your ideal timing for succession? Which of the options can realistically be achieved given that timing?
- What are the tax implications of your options, such as stamp duty or capital gains tax?
- What insurances might you need to have in place if you were to pursue a certain option? These may include life, permanent disability, illness, trauma, and income replacement insurance, for example.
- Do you need to invest in staff recruitment or development now, to put you in a better position for succession later on?
- Look critically at your current business structure. Do you need to restructure your practice to improve your prospects of selling it further down the track?
- Which options are feasible given the size of your practice, its location, the current business climate, suitable internal or external buyers, and the finance options available to potential buyers?

> ***Weighing up succession options really comes down to which ones best fit your goals.***

24%

When they leave their practice, almost one in four partners will be seeking an outright sale of the practice. (Source: 2018 Business Fitness survey of Australian public practices.) With an ageing population, that means the market could become saturated with practices for sale in the coming years.

Selling to colleagues

When you are weighing up your succession options, you may consider selling your practice to existing colleagues. The benefits of this approach are:

- **Incentive:** You can use this approach to reward loyal or high-performing employees.
- **Corporate knowledge:** Your buyer already knows the business. And you already have first-hand knowledge of the buyer's skills and qualities (and deficiencies!).
- **Culture:** Your buyer is more likely to maintain the existing business culture.
- **Transition:** You can gradually step away from your practice. Also, if you wish to retain an interest/some involvement in the practice, an established relationship with your buyer can help facilitate this.

Of course, this approach comes with some downsides too. If all the partners have worked in your practice for several years, the risk is that they may become insular and resistant to change. Recruiting externally can expose the business to new ideas and best practice.

Restructuring your practice

There are a variety of practice structures you might consider, such as corporations or partnerships of individuals. According to Jackie Solakovski in an article for *Charter* magazine, the following factors should influence your decision about which structure is right for you:

- Liability of owners/investors.
- Tax implications of the structure.
- Control of owners/investors.
- Set-up and ongoing compliance costs.
- Owners'/investors' asset protection.

Structural change requires investment in the short-term but failure to change could devalue your practice. Consider the above factors in the context of your long-term goals.

Your action plan

Having established where you want to be (your goals) and your preferred ways of getting there (your options) you need to be clear about how you will move towards achieving those.

Your action plan should be informed by an assessment of where you and your practice are now – and what gaps exist between that and your preferred succession scenarios. You should be specific about what actions need to be completed – and by when – to ensure you stay on track.

The steps you need to take to achieve your optimal (and contingent) states will likely fall into the following four categories:

1. Financial

What financial arrangements do you need to put in place to achieve your preferred succession options? Think about the current financing arrangements of the practice and how those need to change.

For example, if you are relying on an overdraft for working capital, how might that affect an incoming buyer? Or if you are a guarantor to the bank, what additional guarantees might the bank require in the event of your departure from the practice?

Another example might be if your practice has a number of partners, your succession plan might identify that the practice will provide loans or financial assistance to the remaining partners to buy out your interests when you exit. In which case, your action plan might include documenting the principles of this agreement.

> ***Your action plan should be informed by an assessment of where you and your practice are now – and what gaps exist between that and your preferred succession scenarios.***

2. Client

Think about your current client base and how closely that matches the optimal state you want your practice to be in when you depart.

This might include a risk assessment. Is your client base growing and/or could you expand the range of services you provide to your existing clients? For example, can you offer extra advisory services in addition to compliance work?

Or do you have an ageing client base that may get smaller over time? How likely is it that major clients might retire and hand their business over to offspring who don't necessarily want the same accountant who advised their parents?

What new clients might you attract between now and when you depart? For example, a profitable target market is businesses that are growing. They often require advice on business planning, managing growth, raising finance, profitability, tax planning, mergers and acquisitions etc. How might you find and secure new clients like these?

Your action plan should answer these kinds of questions and specify what steps you need to take between now and your departure. This should include the strategies you will employ to inform existing clients before you leave, and how their work will be handled in the future.

3. Operational

Consider what shape your practice will need to be in to achieve your preferred succession scenario; then think about what operational building blocks are required to get the practice to that level.

For example, how can you structure your business to improve efficiency and profitability? Is your business structured in the optimal way to capitalise on growing areas of advisory work? Do you require divisions or specialised departments, placed in a corporate entity, for assurance services such as audit?

Documenting the terms of all client engagements assists with business continuity, which is one reason the professional standard APES 305 Terms of Engagement requires practices to do this. But what other processes underpin your broader business and the work that you do for your clients? Are these documented and accessible to everyone who will need to refer to them after your departure?

4. People

Besides processes, it is helpful to think about your succession from a people perspective. What level do your colleagues need to be working at (and what skills and knowledge will they need) after you have left the practice?

Identify which key talent within your workforce will be integral after you have left. What can you do between now and when you depart to retain these professionals? Are there incentives, promotions, or development opportunities that you can offer them?

For example, you may have a receptionist who is responsible for many of the operational sides of your business. Could their role be retitled/promoted to practice manager, to better reflect their responsibilities? Selling your practice may be easier if you can tell a prospective buyer that you have a capable practice manager in place to help ensure business continuity.

Are there any specialist services that you personally provide to clients, that none of your colleagues do? If so, do you need to begin training up colleagues to allow the practice to retain those clients after you leave? Or might the practice consider outsourcing those services after you leave?

For sale: action plan

Maintaining the profitability of your practice after your departure is one of the most challenging issues for many succession plans. If one of your preferred succession scenarios is to sell your practice, a good approach is to conduct a due diligence check of your business.

Put yourself in the shoes of a potential buyer: What questions would you ask? What assurances would you seek? What records and searches would you undertake? What records would you want to review?

What would a prospective buyer find if they undertook a due diligence check of your business today? In light of this, what are the gaps in your existing business that you need to fill, between now and when you put your practice on the market?

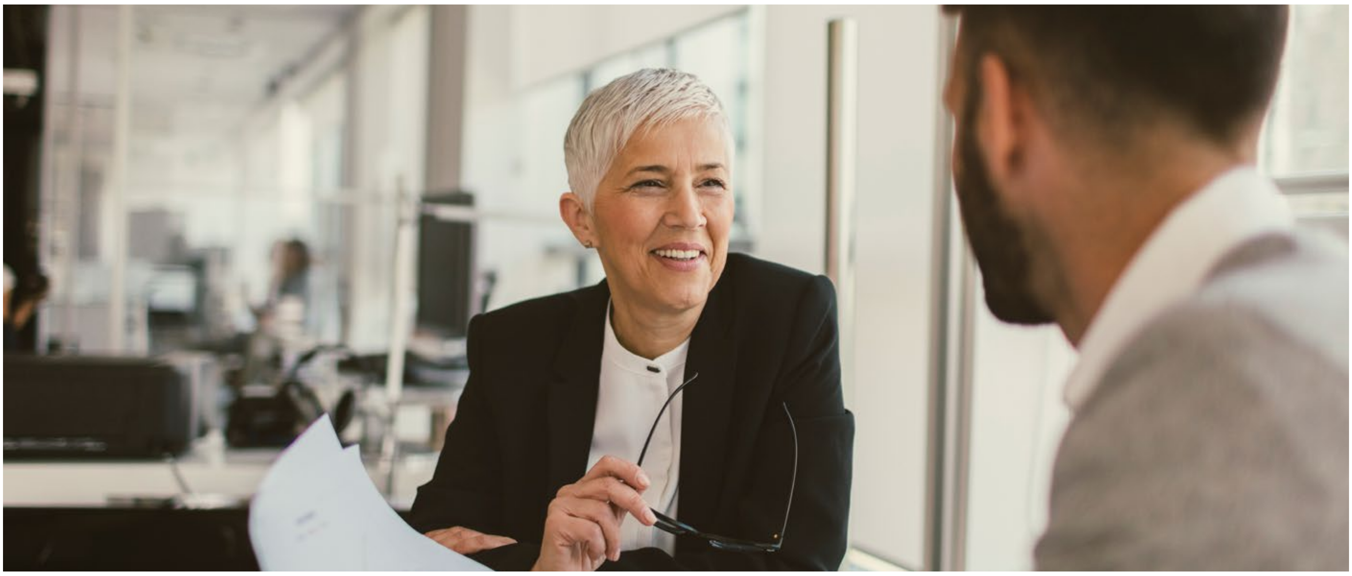
Adding value

A 2018 public practice survey by Business Fitness asked partners what they were doing to make their business more profitable and increase its value. The top ten most popular methods were:

- Streamlining workflow and processes.
- Leveraging technology.
- Delegating lower level work to more appropriate team members.
- Training our team.
- Improving the overall profitability of the practice.
- Improving the quality of our clients.
- Utilising fixed fee pricing.
- Increasing fees/charge rates.
- Growing the overall top line.
- Delegating client contact to other team members to free partners up to do higher level work.

Staying on track

Writing a succession plan is a sizeable undertaking and it can be tempting to feel like the job is done after the plan is agreed and documented. However, leaving your plan in the bottom drawer without tracking progress will undermine all your hard work to date.



Having settled on your action plan, you need to commit to regularly checking in on your progress. This helps to ensure that you know:

- Whether your original plan was fit for purpose (have the actions you identified delivered the required results to date?);
- How people who are accountable for steps in the succession plan are tracking;
- Whether any change in your own circumstances or priorities is affecting your progress;
- How any external influences (such as economic conditions) might be impacting your original plan;
- Whether any corrective action is required by you to stay on course; and ultimately
- Whether your preferred timing and succession option is still achievable.

> ***Leaving your succession plan in the bottom drawer without tracking progress will undermine all your hard work to date.***

Some of this monitoring can be as simple as checking that any insurances you planned to put in place have been secured. Or that actions you delegated to colleagues have been taken and tasks have been completed by deadline. The important thing is that – however large or small – you check the progress of every action point.

49%

According to a global survey of public practices, undertaken by the Global Accounting Alliance: "... firms have employees interested in becoming owners who are not getting the training they need (49% of multi-owner firms have not been offered leadership training) to step into the shoes of those getting ready to slow down or retire."

Appendix

While the main focus of this Succession Planning Guide is on planning and preparing for your practice succession, these plans should be integrated with your personal plans for your life beyond your career in practice.

This Appendix includes a facilitation guide which you can use to develop your succession plan and also your personal retirement plan.

Assessing the options

Start by identifying personal and business goals, the timeline for succession, and the capabilities of your practice to achieve those goals. Understanding these factors will make it easier to decide which options are most suitable and should be explored further.

You can narrow down the options to find the type of succession which is most suited to your practice at a particular point in time by:

- documenting your goals and objectives; and
- understanding the key drivers in your practice.

Appendix A – Retirement planning tools

Section 1: Your personal retirement goals

Research shows that the best outcomes are achieved when people plan their retirement having considered various facets of life, their goals and a pathway to achieving them.

Finances

Being financially secure is key to achieving a comfortable retirement. It's important to have certainty about your retirement income from all sources. Also be aware of your current and expected expenditure and if there is a gap in the timing of the availability of your income from various sources. Will any gaps delay your decision to retire or change the way you retire?

Health

Consider whether you or your family members have any health issues that will affect the timing of your decision? The good news is that a large Australian study showed that retirement was linked to positive lifestyle changes[1]. Being freed from full-time work provides the opportunity to improve your health, to take up a sport, exercise and work on your fitness.

Social relationships

Staying socially engaged is a pillar of ongoing wellbeing. If work is your primary source of social interaction ceasing work may leave a social gap for you which could be filled with other social activities. A meta- analysis of research into wellbeing in retirement found that the kinds of social roles people take on matter[2]. Those with intergenerational engagement, having an explicit role within your social group, activities which involve both social networking and learning and voluntary activities which bring a sense of reward all lead to a greater sense of wellbeing.

Sense of identity

The more strongly your identity is tied to your full-time role, the more important it is that you find alternative ways of using your talents and getting recognition for your contributions[3]. You may want to explore ways of continuing to use your professional knowledge and expertise after full-time work by contributing to a NFP or by mentoring someone in your field.

Intellectual stimulation

Consider what level of intellectual engagement you want after retirement. You might decide you want a different type of intellectual engagement. Could you start now to engage in activities which will stimulate your mind and perhaps your creativity?

Make a plan

When sifting through the options, bear in mind the activities that you know have been energising and meaningful in the past. Ideally build your plan around them if your circumstances allow. Your plan may be in stages and can build in contingencies for changes in circumstances or preferences.

Committing the plan to writing will make it easier to monitor your progress and make any adjustments needed. Be clear about the actions you need to take to complete each stage of the plan and the timing of each of the actions. The closer the expected retirement date, the SMARTer* the goals should be to make sure you achieve them. (*Specific, measurable, achievable, realistic and timely).

Get support

Think about what support, guidance or assistance you may need to follow through on your plan to achieve your goals. It can be helpful to talk through your plans with someone you trust. This also helps to keep you accountable for following through on the steps to achieving your plan within your timeframes.

Go in with your eyes open

Planning your retirement can be an enjoyable and exciting time. A US study found that a sense of control over the process was an important part of getting the most from retirement[4]. However, like any change, it won't all be smooth sailing. Planning, identifying and drawing on the resources you have used in the past to navigate change and setting meaningful goals will help you manage this process[5].

Recognise that it will take some time to adapt to your new life stage, and that there can often be a bit of discomfort around the adjustment. Think about the people who have been most supportive to you in the past. Keep in touch with them.

1 Ding, D., Grunseit, A. C., Chau, J. Y., Vo, K., Byles, J., & Bauman, A. E. (2016). Retirement—a transition to a healthier lifestyle?: evidence from a large Australian study. American journal of preventive medicine, 51(2), 170-178.

2 Heaven, B. E. N., Brown, L. J., White, M., Errington, L., Mathers, J. C., & Moffatt, S. (2013). Supporting well- being in retirement through meaningful social roles: systematic review of intervention studies. The Milbank Quarterly, 91(2), 222-287.

3 Heaven, B., O'Brien, N., Evans, E. H., White, M., Meyer, T. D., Mathers, J. C., & Moffatt, S. (2015). Mobilizing resources for well-being: implications for developing interventions in the retirement transition. The Gerontologist, 56(4), 615-629.

4 Donaldson, T., Earl, J. K., & Muratore, A. M. (2010). Extending the integrated model of retirement adjustment: Incorporating mastery and retirement planning. Journal of Vocational Behavior, 77(2), 279-289.

5 Henning, G., Lindwall, M., & Johansson, B. (2016). Continuity in well-being in the transition to retirement. GeroPsych.

Section 2: Retirement goal setting

In order to determine what your personal and business objectives will be, take the time to reflect on the following questions.

Describe your ideal personal/family situation over the medium to long term? Be specific about these aspects of your life: **Finances / Health** **Social relationships** **Sense of identity** **Intellectual stimulation**
What current resources do you have to help you achieve these goals?
Are there any gaps or issues? Will these impact the timing of your decision to retire?
What are your options for addressing any gaps and achieving your goals?
What actions do you need to take and when? Can you make a start putting plans in place before you retire?

Appendix B – Succession planning tools

Section 1: The big picture for your practice

Outline the medium to long term vision for your practice What are you trying to achieve? Is the context of your vision maximizing value prior to sale, consolidating a more enduring legacy or ensuring the ongoing viability and growth of the practice?

Top 5 things you want the practice to be known for in 5 years?
Client value proposition – key words to describe
Value proposition?

Ideal clients?
What would you like the culture of the practice to be?
Key growth options / strategies?

Section 2: Your practice goals

Your goals for your practice will depend on whether you are a sole practitioner planning to exit the practice or whether the practice will continue beyond the succession of an individual or multiple partners.

What are your core goals and objectives e.g. achieve revenue/profit targets, acquire new clients, enhance the value of the practice over the next 12 months, 3 years and 5 years, and ensure stability for your clients and/or staff?
Contributing Factors (those factors which may assist in attaining goals)
Inhibiting Factors (those factors which may prevent attaining the goals)
What are some of your key business planning assumptions that you need to be aware of?
Are you able to identify areas within the business that could be improved in order to add business value over the medium to long term?
Do you believe you have the best structure in place to maximise its value? (i.e. financial, client, operational and people processes).
Do you have any non-negotiables in mind with your business goals? (E.g. timeframe, price, staff positions etc.)

Section 3: SWOT Analysis

The following SWOT analysis is based on your own assessment of the strengths, weaknesses, opportunities and threats to the practice.

STRENGTHS	WHICH MEANS?

WEAKNESSES	WHICH MEANS?

OPPORTUNITIES	WHICH MEANS?	Required Action – turn the opportunity into reality

THREATS	WHICH MEANS?	Required Action – mitigating the threats

Section 4: Your Options

What options can you identify to ensure you achieve your goals through your practice succession? Take into account the practice vision and the results of your SWOT analysis. Also consider options which could allow you to adapt your plan to changing circumstances, personal or business.

Section 5: Your Action Plan

Your Action Plan is what you need to help achieve your stated vision and goals.

Actions	PRIORITY RATING low, medium, high	Timeframe Ie 30,60,90,180 days; 1,3,5 years
Financial		
Client		
Operational		
People		

Section 6: Monitoring your progress

In planning for succession, The table below can be a useful format to track progress against the succession plan. Having a plan on a page with key activities will be easy to monitor and track progress on required items to effect the business transition.

No plan is complete – every plan requires adjustments to take account of changes. Using the table can help you to set timeframes and to quickly adjust your plan if goals and targets change.

Business Succession Plan for (Practice Name) (Date)

Organisation Summary	
Partner/s	Gross revenue 20xx calendar/financial year
Professional staff	Profit margin
Admin staff	
Vision: Growth/Business Strategy:	

Goal	**Activity** What tasks need to be carried out?	**Measure** What is the performance measure which will indicate success?	**Ownership** Who within the business owns the individual activity/project	**Timeframe for completion**	**Completed**	
				Start	**Finish**	
Financial						
Client						
Operational						
People						

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