

Are You Taking It With You? Building Your Practice For Succession

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This is the first in a series of articles that will assist practitioners in establishing their exit strategy. The purpose of this article is to bring the concept of succession to the forefront and raise some of the concepts and issues to consider when contemplating succession.

Regardless whether a practitioner is just beginning, in the middle or approaching the end of their career they often have the same reaction when they consider the subject of succession. Mortal fear.

“So when will you be retiring?” I feel a pause in the conversation as their mind yearns for a slower pace but cannot yet face the realization that they may one day have to say good-bye to clients and staff that they have enjoyed working with for so many years. “Well, I haven’t really thought about it, yet,” is the response. The demands of everyday practice often impede the ability for you to focus on the long-term goal of ensuring that your practice not only continues to grow but does so after your active involvement ceases. That growth will enable a successor to fund your buyout. The time that you take now in preparing your succession plan will ensure that growth, and definitely safeguard your financial future.

Look around your office. Does anyone have the potential to buy you out? Perhaps you do not have any staff. Which practitioner in your community could succeed you? There may not be any obvious hot prospects and the fewer the options the sooner you must consider setting up the infrastructure to attract a successor.

The quality of your existing practice and potential successors is critical. Obviously, a profitable practice is a key element in this process. The more valuable the practice, the easier it is to sell. Depending where you are in your career path, the talent of your existing staff is also very important. As with most practitioners, your practice is the single most important asset that you invest into on a daily basis – and you want to preserve it. Succession planning is a critical step in the process of preservation of your practice.

Succession Planning

Succession planning is not an easy process. A succession plan or an ‘exit strategy’ is very responsible but not very popular. It raises difficult issues, which may be difficult to discuss such as loss of control of your business, potential changes in your financial affairs and the aging process. These selling features don’t make succession planning very popular. However, if you hope to ‘get out of your practice alive’ then succession becomes an issue in much of how you do your day-to-day business.

Some practitioners are concerned that they will not be as motivated to build their practice if they focus on leaving it. On the contrary, practitioners who have an established succession plan, have a clearer picture of how they wish to build their

practice and do not tend to waste a lot of time on the type of clients that are not very profitable or cause them a lot of stress.

Evaluate your Practice

You must step back and take an objective overview of your practice. If you struggle with doing this yourself, seek advice from someone you trust.

It is wise to set up a reasonable transition period of two full years, if possible, where your potential successor works on contract, as an equity employee and/or as a partner over that period to facilitate a smooth transition and maximize your income stream from the practice. Be aware that if you are a sole practitioner and are used to working independently, having to share decision-making can be a real challenge.

Train your successor

How can a staff person or potential candidate take over a business if they don't get any training? If it is a staff member, you may have trained them on their technical skills but do you have the patience (and confidence) to train them on how to run a public practice.

As a practitioner, you are the mentor. A potential partner who has never owned a public practice is new to being an entrepreneur. Young entrepreneurs need to learn how to make good decisions and how to seek out advice they can trust. They need strong skills in strategic decision making, planning, communications, capital investment decisions, credit management, cost control, marketing, employee relations, and then they need to have the technical skills that fit the existing practice and its potential growth. It is interesting to note that most accountants have very similar technical skills but the most successful practitioners have strong business skills.

Train yourself

During the transition period prior to retirement, you will have to find a balance between being available to assist your successor and being critical of their business decisions. If you want freedom, you cannot afford to be critical to the day-to-day goings on of the operation.

In conclusion, the smoothly planned succession of your business is essential to ensure its continued success. The loyalty of your clients and the harmony of your employees may be jeopardized if your succession is not adequately planned.

The next article in this series will provide an in-depth discussion of the elements of succession arrangements (exit strategies) for both sole practitioners and partnerships.