Public Practice E-News
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This electronic newsletter is prepared especially for public practitioners and is sent bi-monthly to members of the Puerto Rico Society of CPAs. This e-newsletter features regular commentary from TSCPA member Bill Reeb, a CPA firm consultant based in Austin. For questions or comments concerning the articles featured in this issue, or to suggest future topics, please e-mail Reeb at bill@tscpa.net.

From the BILLiverse
In this article, Bill Reeb continues his series on the results of the Private Companies Practice Session (PCPS) and Succession Institute (SI) 2016 Succession Planning Survey. This was the fourth such survey conducted since 2004. Part 1 of Reeb's article series covered the results for solo practitioners and sole proprietors. In part 2, he begins discussing highlights from the 435 multi-owner firms that responded. The tables and commentary included in the article summarize the results and conclusions. The survey uncovered trends in succession planning, retirement expectations, current firm policies and procedures, agreement structures, ownership positions and much more. In analyzing the responses, there were interesting comparisons with past results. Reviewing these highlights regarding multi-owner firms, just as it did for solo practitioners and sole proprietors, reflects the state of the accounting profession and why you can expect to see dramatic changes over the next five years.
Read Reeb’s commentary
Link to article

Tight Talent Pool Drives Salary Increases
CPA firms are facing new, global threats in the war for talent. A single, unified coast-to-coast talent market is emerging that's undermining the pay differences between big-city and small-town firms, which is bad news for traditional firms trying to control staffing costs, but great news for a new generation of top talent.
Rick Telberg takes a closer look
Link to article

Trends in Advisor Marketing: How to Attract the Next Wave of Clients
In this article, marketing experts discuss trends advisors might want to follow in their quest to add clients. There is a new high-tech marketing reality that the profession will need to learn to navigate.
Get the details
https://www.financial-planning.com/opinion/how-to-attract-the-next-wave-of-clients

How to Find the Right Clients and Let the Rest Go
CPA firm leaders often struggle with finding and keeping clients who will contribute to their growth while letting go of the wrong ones for the firm. There are hard decisions that must be made when it comes to clients, as well as how to avoid the uncomfortable situations and build longer-lasting relationships for a more profitable firm, right from the beginning.
Seth Fineberg takes a closer look

http://www.accountingweb.com/practice/clients/how-to-find-the-right-clients-and-let-the-rest-go

Related: When a CPA Should Break Up With a Client – and How
https://www.bna.com/cpa-break-clientand-n57982086815/

Getting Started with Innovation
Innovation brings a certain level of disruption and risk. However, given the magnitude and speed of change throughout the world, it is a necessity for your career, your clients and the profession. There are simple steps that can be taken to get started with innovation.
Learn more
http://blog.aicpa.org/2017/04/getting-started-with-innovation.html#sthash.6NJe7THa.dpbs

Developing a Diverse Workforce
Although recruiting a diverse workforce can be a challenge, a commitment to building relationships can help. There are tactics CPA firms can use to attract and keep the right team.
Get the details
http://www.journalofaccountancy.com/newsletters/2017/apr/firms-overcome-challenges-develop-diverse-workforce.html?utm_source=mnl:cpainsider&utm_medium=email&utm_campaign=17Apr2017

Tips for Being More Responsive to Clients
A key to attracting and retaining new business is to develop relationships with clients, so it's vital for CPAs to be knowledgeable and available. Leaders in the profession offer advice on how CPAs and their firms can ensure they are being sufficiently responsive.
Cheryl Meyer takes a closer look
http://www.journalofaccountancy.com/newsletters/2017/mar/9-tips-being-responsive-clients.html?utm_source=mnl:cpald&utm_medium=email&utm_campaign=23Mar2017

Six Ways to Create a Good First Impression and Win New Business
When an initial meeting could win a new client for the firm, preparation and follow up are critical. There are six ways that can assist you in making the right impact.
Learn more
https://www.intheblack.com/articles/2017/04/11/6-ways-to-create-an-impression

Keeping Up with Boutique Firms
Remaining one step ahead of newer practices can often be difficult for larger or well-established accounting firms. This article covers tips on how to compete against smaller, more nimble accounting practices in today's fast-paced, technology-driven economy.
Read the article
http://www.accountingweb.com/practice/growth/keys-to-keeping-up-with-boutique-firms

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PCPS Succession Institute 2016 Succession Survey Results

Part 2 – Multi-Owner Firms

By Bill Reeb, CPA, CITP, CGMA

This article summarizes selected results of the Private Companies Practice Session (PCPS) and Succession Institute (SI) 2016 Succession Planning Survey. (The full survey results are available through the PCPS Resource Center.) This was the fourth such survey conducted since 2004. Part 1 of this article series covered the results for solo practitioners and sole proprietors. Part 2 starts with the 435 multi-owner firms responding and will take several articles for us to cover even the highlights of the survey. The following tables and commentary summarize the results and our conclusions.

Survey Demographics

This year's survey was launched April 28 and closed on May 17, 2016. The survey was expected to take 25 to 50 minutes to complete, compared to our 2012 survey's 10 to 20 minutes. Because of this additional time requirement, we expected far fewer completed responses, so we were very pleased with the final participation numbers.

As the graphic below shows, we had 819 responses from U.S. firms, which included 68 from U.S. solo practitioners, 316 from U.S. sole proprietors and 435 from U.S. multi-owner firms. (Please read our last article on solo practitioners and sole proprietors for more details on these two groups) The U.S. responses in this survey amounted to roughly 87 percent of the responses we achieved in 2012 (941 responses), roughly 172 percent of the responses for 2008 (476 responses) and 177 percent of the responses for 2004 (463 responses).

Of the 819 U.S. responses, participant demographics ranged from:

- .5 to 973 Full Time Equivalents (FTEs)
- $25,000 in CPA firm net revenues to $160 million in CPA firm net revenues
- zero to $85 million in net revenues from other entities
- $10,000 to $1,500,000 average owners' compensation
- 1 to 100 equity owners
- zero to 75 non-equity owners
- zero to 650 accounting staff
- zero to 210 administrative and paraprofessional staff

Which of the following best describes your firm?

Answer		Response	%
Solo practitioner (only one person in the firm)		68	8%
Sole practitioner or sole owner (only one owner, but at least one additional employee)		316	39%
Multi-owner firm (more than one partner or owner in the firm)		435	53%
Total		819	100%

Who Responded to this Survey?

A total of 435 multi-owner firms responded to this survey. The following tables provide some additional information as to who responded to the survey. Anytime our surveys ask for specific dollar amounts, such as revenues, partner compensation, etc., as often happens, many survey participants do not complete these sections. The following two tables break down the number of responses by net annual revenue and by FTEs.

This first table shows the number of respondents (371 total) sorted by each revenue category listed below.

Statistic	$1 - $500,000	$500,001 - $750,000	$750,001 - $1,000,000	$1,000,001 - $2,000,000	$2,000,001 - $3,500,000	$3,500,001 - $5,000,000	$5,000,001 - $8,000,000	$8,000,0001 - $15,000,000	$15,000,001 - $25,000,000	$25,000,001 - $60,000,000	$60,000,001 - $160,000,000
Total Responses	17	29	25	87	66	40	38	37	13	10	9
Percent	5%	8%	7%	23%	18%	11%	10%	10%	4%	3%	2%

This next table shows average net annual revenues by FTE categories (362 responses).

Answer	1-7.99 FTEs	8-15.99 FTEs	16-25.99 FTEs	26-50.99 FTEs	51-100.99 FTEs	101-200.99 FTEs	201 or more FTEs
Average Net Annual Revenues	729,397	1,664,933	3,035,957	5,313,661	11,684,594	19,266,999	85,201,261
Responses	70	99	65	61	37	17	13
Percent	19%	27%	18%	17%	10%	5%	4%

Average annual owner compensation by firm size in FTEs for the most recent complete year were reported as follows.

Answer	1-7.99 FTEs	8-15.99 FTEs	16-25.99 FTEs	26-50.99 FTEs	51-100.99 FTEs	101-200.99 FTEs	201 or more FTEs
Average Annual Owner Compensation	197,805	248,465	271,134	300,553	418,088	355,045	547,800

Existence of Succession Plans

Over the years, the percentage of multi-owner firms that have a written, approved succession plan in place has increased gradually during three out of the last four surveys, from 25 percent in 2004 to 35 percent in 2008 and 46 percent in 2012, with a slight reduction in 2016 to 44 percent. Given the potential selection bias in the survey, the 2016 percentage can be considered essentially the same as 2012. While the trend has been positive, and it is clear that partners are delaying retirement by wanting to work longer, the fact that our surveys have never shown more firms with a succession plan than without one is of concern.

However, while we don't believe nearly enough firms have a written, approved succession plan in place, they are making positive strides in addressing succession issues as part of their firm management and infrastructure improvement processes. See the two tables below for the breakdown regarding succession plans both for 2016, as well as for the past 12 years, covered through four successive quadrennial surveys.

We currently have a written, approved succession plan in place:

Answer		Response	%
No		244	56%
Yes		190	44%
Total		434	100%

Answer		2016 %	2012 %	2008 %	2004 %
No		56%	54%	65%	75%
Yes		44%	46%	35%	25%
Total		100%	100%	100%	100%

The following table shows that the smaller the firm, the less likely they are to have a written and approved plan in place. Simply put, less than 50 percent of firms with less than 26 FTEs have succession plans in place and 61 percent or higher of firms with 26 FTEs or more have succession plans in place, with firms above 101 FTEs at 76 percent and firms above 201 FTEs at 100 percent.

Answer	1-7.99 FTEs	8-15.99 FTEs	16-25.99 FTEs	26-50.99 FTEs	51-100.99 FTEs	101-200.99 FTEs	201 or more FTEs
Yes	23%	29%	46%	61%	65%	76%	100%
No	77%	71%	54%	39%	35%	24%	0%
Total	70	99	65	61	37	17	13

There can be a variety of reasons that smaller firms do not have a succession plan in place, not the least of which is that the smaller firms may be at a point in their life cycle where they are operating under more of a silo or "Eat What You Kill" business model. Under this type of model, each owner can decide when he/she is going to retire and under what conditions/terms each will retire. They then can individually decide to sell off their own book of business to whomever they can at whatever price can be negotiated at that time. (Maybe these owners can sell their book of business or some portion of it to their existing partners or maybe they will have to sell their clients to another firm entirely.)

No matter how you operate, we believe that every partner (even better if it is the whole firm) should be making arrangements now (ahead of time) to deal with succession, even if that plan only addresses a crisis situation. Logically, it is much more preferable that the plan also deal with planned departures and succession management, as well as crises.

Progress Made with Succession Plans

For those firms that do have a written succession plan in place, we asked for an indication of their current progress with respect to actual implementation of their succession plan. Responses showed that 56 percent of firms with succession plans do have a plan in place and it is periodically updated to address issues as they arise. Another 30 percent have a plan in place and significant progress has been made in its implementation. This total of 86 percent of firms (of the 44 percent that have plans in place) is a slight improvement over 2012. However, as you will see in the table by firm size, much more progress has been made in this area with larger firms.

The following best describes our progress with our current succession plan:

Answer		Response	%
We have a plan in place, but relatively little progress has been made towards implementing it.		27	14%
We have a plan in place and significant progress has been made in its implementation.		57	30%
We have a plan in place; it has been implemented and is periodically updated to address issues as they arise.		106	56%
Total		190	100%

Here are the answers from 2016 compared with 2012 responses.

Answer		2016 %	2012 %
We have a plan in place, but relatively little progress has been made towards implementing it.		14%	19%
We have a plan in place and significant progress has been made in its implementation.		30%	30%
We have a plan in place; it has been implemented and is periodically updated to address issues as they arise.		56%	51%
Total		100%	100%

Firms with 101 or more employees are more likely to have plans in place that are either partially or fully implemented. None of that group said that "a plan is in place, but relatively little progress has been made towards implementing it."

Answer	1-7.99 FTEs	8-15.99 FTEs	16-25.99 FTEs	26-50.99 FTEs	51-100.99 FTEs	101-200.99 FTEs	201 or more FTEs
We have a plan in place; it has been implemented and is periodically updated to address issues as they arise.	50%	41%	60%	62%	46%	77%	92%
We have a plan in place and significant progress has been made in its implementation.	19%	34%	23%	27%	46%	23%	8%
We have a plan in place, but relatively little progress has been made towards implementing it.	31%	24%	17%	11%	8%	0%	0%
Total	16	29	30	37	24	13	13

The smaller the firm in size, the more likely it is that the firm has a plan, but relatively little progress has been made towards its implementation.

Status of Succession Planning

For firms that do not have a succession plan in place, the percentage of responses indicating no perceived need to have a plan has decreased over the past 12 years from 19 percent to 5 percent, which is a great trend; 45 percent (34 percent + 11 percent) of the firms have started a plan or have one in draft form, ready for approval.

As to the status of our succession plan:

Answer		2016 %	2012 %	2008 %	2004 %
We do not feel the need to have a plan, written or otherwise.		5%	7%	10%	19%
We know we have a succession problem, but we don't really know how to get started putting together a plan.		16%	16%		
We will start the succession planning process in about 10 years.		2%	3%	3%	
We will start the succession planning process in about 5 years.		6%	11%	10%	
We will start the succession planning process in the next year or two.		26%	22%	32%	51% (Soon)
We have started the succession plan and will soon complete it.		34%	30%	35%	25%
We have a succession plan drafted, but it has not been formally approved.		11%	12%	9%	5%
Total		100%	100%	100%	100%

The problem is that four years ago, 42 percent (30 percent + 12 percent) of the respondents said that they had started their succession plan or the plan was in draft stage just prior to approval and eight years ago that number was 44 percent (35 percent + 9 percent). Based on the survey findings over the past decade, given these high percentages of firms in the final stages of pulling their succession plan together, the number of firms that have written approved succession plans in place should clearly be trending up instead of holding about the same. What this says to us is that there is a giant chasm between starting a succession plan or drafting one and actually putting it in place.

None of the responding firms with more than 16 FTEs (down from 50 FTEs in 2012) or above $3.5 million in revenue (down from $8 million in net annual revenues in 2012) answered that they do not feel the need to have a plan. This makes sense inasmuch as the larger the firm, the more critical it is to have plans, policies, agreements and other infrastructure in place to support the longevity and vitality of the firm over the long term. But this is a great example of the fact that, while some of the statistics regarding succession in this survey by themselves are not showing significant positive movement, the awareness of the need for succession planning has moved downstream in firm size from $8 million and above to $3.5 million and above, and from 50 FTEs and above down to 16 FTEs and above.

Do you expect succession planning to be a significant issue for your firm in the next 10 years?

Answer		Response	%
Yes		363	84%
No		71	16%
Total		434	100%

Answer		2016 %	2012 %
Yes		84%	79%
No		16%	21%
Total		100%	100%

Responses showed that 84 percent (14 percent + 34 percent + 18 percent + 8 percent) of the 434 multi-owner firms that responded to this question felt that succession planning will be a significant issue for the firm in the next 10 years. That number has grown by 5 percent since the 2012 survey. It is interesting to note that, although 84 percent of firms believe succession will be a big issue for them in the next decade, only 44 percent of the firms have a plan in place.

Timing of our succession planning challenges:

Answer		2016 %	2012%	2008%	2004%
We have current succession planning challenges.		26%	32%	17%	32%
We will have succession planning challenges in the next 1 to 2 years.		14%	28%	30%	18%
We will have succession planning challenges in 3 to 5 years.		34%	22%	20%	1%
We will have succession planning challenges in 6 to 8 years.		18%	12%	13%	15%
Our succession planning challenges are 9 to 10 years away.		8%	5%	3%	11%
Questions not asked in the last two surveys (just to show totals of 100%)				16%	13%
Total		100%	100%	100%	100%

Right now, about a quarter of the firms that said they expect to have significant succession challenges said they are currently working through these issues. Only 14 percent are worried about the next one to two years, which is down significantly from the last two surveys; 34 percent expect succession challenges in the next three to five years, which is up significantly from any of the previous surveys. But when you look at this table, it seems to be a point-in-time reference as to the state of firms rather than indicating any consistent trends.

One of the potential answers as to why the horizon of three to five years is showing as the highest time frame for potential succession challenges is that a great number of partners are unwilling to give a final indication as to when they plan on retiring and even more so, as to whether they plan to partially retire or fully retire. So, as in the past, we find the three- to five-year window to be that perfect time to quote due to its total lack of accountability. A partner can inform the firm that he/she is leaving near term, but the time frame is far enough away that neither the partner nor the firm feels like there is a need for current, specific action to address this change.

Equity Ownership Soon to Retire

Next, participants were asked how many owners were planning to retire in the next five years and what the approximate equity ownership percentage of those retiring in this five-year period is, starting with 2016 retirements.

Out of 363 respondents, here is how "the number of partners" leaving broke down.

How many equity partners/owners are planning to retire in the next five years?

Answer		Response	%
0		94	26%
1		136	37%
2-3		107	29%
4-5		11	3%
6-7		10	3%
8-10		2	1%
More than 10		3	1%

According to the responses of the firms to this question, 74 percent (37 percent + 29 percent + 3 percent + 3 percent + 1 percent + 1 percent) will have one or more partners retiring in the next five years, with 37 percent (29 percent + 3 percent + 3 percent + 1 percent + 1 percent) having two or more retiring in that same time frame.

Drilling down further, we asked what ownership percentage was likely to be transferred during the period. Just taking a broad view, our series of questions on this topic first provided an average amount of ownership expected to be transferred over the next five years. In each of the following years, of the firms surveyed, these percentages of equity ownership on average are expected to retire and will need to be transitioned to other owners:

- In 2016, an average of 5 percent of the ownership is expected to transfer
- In 2017, an average of 5 percent of the ownership is expected to transfer
- In 2018, an average of 7 percent of the ownership is expected to transfer
- In 2019, an average of 6 percent of the ownership is expected to transfer
- In 2020, an average of 12 percent of the ownership is expected to transfer

This totals 35 percent, which means that the voting in firms can significantly change as new partners are added to leadership or existing partners obtain greater voting rights. Either way, 35 percent can be a game changer by the fact that this block of ownership can now veto almost any action presented in any super-majority vote. But remember, this is an average. So, out of the 363 firms that filled out this part of the survey, most in any given year would have no partners leaving (so zero percent ownership would be transitioning for them) and then some will have partners leaving with small amounts of ownership and a few leaving with a large amount of ownership, creating a low overall average. So we dug deeper into the data to come up with this additional insight:

- In 2016, 8.6 percent of the respondents said 25 percent or more of the ownership of their firm would be retiring and 4 percent would have 50 percent or more of the ownership retiring
- In 2017, 8.8 percent of the respondents said 25 percent or more of the ownership of their firm would be retiring and 3.6 percent would have 50 percent or more of the ownership retiring
- In 2018, 11.6 percent of the respondents said 25 percent or more of the ownership of their firm would be retiring and 5 percent would have 50 percent or more of the ownership retiring
- In 2019, 9.3 percent of the respondents said 25 percent or more of the ownership of their firm would be retiring and 4.3 percent would have 50 percent or more of the ownership retiring
- In 2020, 19.2 percent of the respondents said 25 percent or more of the ownership of their firm would be retiring and 10.9 percent would have 50 percent or more of the ownership retiring

This creates a far more urgent picture regarding the succession landscape for our profession. If you total up the next five years, this data shows that 57.5 percent (8.6 percent + 8.8 percent +11.6 percent + 9.3 percent + 19.2 percent) of the firms said they would have 25 percent or more of their ownership in transition and 27.8 percent (4 percent + 3.6 percent + 5 percent + 4.3 percent + 10.9 percent) will have 50 percent or more of their ownership in transition. In other words, a quarter of all multi-owner firms will have a controlling interest in the firm changing hands during this time period. This means that firms need to get their act together regarding the next generation of leadership or merger mania will be the only option left.

It is hard enough for firms to withstand a 25 percent change in ownership without some serious changes, updates and formality developed throughout the firm's infrastructure and especially in critical areas such as governance, accountability and compensation. For any of those firms with minimal to partial succession plans in place, a formidable situation will evolve, creating a questionable likelihood of the new internal leadership being able to successfully take over, be able to sustain the firm's profitability and unity, and be in a position to pay off the large retirement benefits accompanying large ownership blocks of retiring owners.

Ownership Positions and Expected Changes

This next section takes a quick look at what positions firms have created as a market-facing (in other words, all of these positions would be perceived by the clients of the firm to be partners of the firm), partner-equivalent position to augment their leadership ranks. Additionally, we wanted to get a perspective as to whether firms believe that they have the right number of partners, are over-partnered or under-partnered.

Besides equity partners, which leadership positions does your firm recognize as a partner equivalent?

Answer		Response	%
Non-Equity Partners		100	54%
Income Partners		65	35%
Principals		39	21%
Directors		26	14%

This was a “select all that apply” question, which 186 people responded to. Of those firms, over 50 percent of them have added the position of non-equity partner to their leadership group, 35 percent have added income partners, 21 percent principals and 14 percent directors. Usually a non-equity partner, income partner or principal would not own equity in the firm, except perhaps some minimal amount required under state statute. But in our experience, which was not a question asked in this survey, a number of firms have the title of principal and more often, the title of director and do not differentiate as to whether the partner owns equity or not.

Which best describes your firm's status with respect to your total number of partners?

Answer		Response	%
We have the right number of partners for our size at this time.		288	68%
We have too many partners for our size at this time.		80	19%
We have too few partners for our size at this time.		53	13%
Total		421	100%

The above table and the next one provide a great deal of insight. They show that 68 percent of the respondents say they have the right number of partners, 19 percent say they have too many partners and 13 percent say they have too few partners.

Now, given the data above that 74 percent of these firms will have at least one partner retiring and 37 percent will have two or more partners retiring, that 44 percent of the firms have succession plans in place and 54 percent of firms have created non-equity partner positions (with others creating additional partner equivalent, non-equity positions), we would have expected to see a higher percentage of firms that said they are over-partnered at this time. The good news is that firms can have the right number of partners now, but be focusing on increasing capacity, delegation and leverage within the firm, and they will be in a great position to retire partners, not have to add any new ones and still have the right number of partners.

So, not being over-partnered at this point is not a problem if the firm is well underway toward fixing some basic capacity problems now. Unfortunately, the firm initiative to create capacity and push work down usually takes three to five years to implement, so it is not something you can put in place the last minute before a partner retires.

Based on your projected growth over the next five years, which best describes your firm's status with respect to your total number of partners?

Answer		Response	%
We expect to add more partners than we have now by the end of five years.		215	51%
We expect to have the same number of partners that we have now by the end of five years.		146	35%
We expect to decrease the number of partners that we have now by the end of five years.		60	14%
Total		421	100%

Now take a look at the above table. We asked firms about their growth expectations over the next five years. Given their expected growth, we asked about expectations regarding the size of their partner group; 51 percent of the firms expect to add new partners by the end of five years. Obviously, the larger their expected growth, the more that adding partners is an expected response. However, if the growth expected is fairly conservative, this is not always the answer we would suggest to our firms. We are proposing that our clients increase staffing, build greater competencies at every level in the firm, push work down wherever possible, train-train-train and shift smaller clients down to managers to manage. This is because the most profitable focus of firms is to increase the size of books partners and managers can manage, thereby requiring fewer partners to sustain a growing firm.

This leveraged approach allows partners to retire while making it easier for the remaining partners to pay them off and actually allows the remaining partners to make more money than the departing partners did. But it requires a firm to grow their average books managed per partner from wherever they are now to double that over the next five years. This approach not only makes succession easier (because we are not scrambling to find partner replacements), but the profitability is far more robust.

This is why we see the 35 percent response rate from the firms that don't expect to add partners while growing as being so positive. It is also why we see as positive the expectation that 14 percent of the firms expect to see a decrease in partners. For the 19 percent that feel they have too many partners now in the first question regarding number of partners, it makes sense that 14 percent in the second question expect to see the size of their partner group decrease. Our concern is that some of the 51 percent that plan to add partners are doing so under the old-school and less-profitable idea of replacing a retiring partner with a new partner rather than revamping the capacity and workload of the existing partners.

As many of you know from reading our books and listening to us (Dom and Bill) speak, what we find in the marketplace is that most partners, based on the level of work they are doing every day

– at least partially and some nearly completely – simply fill the role of manager. Therefore, if that is occurring, most managers in those situations would be expected to fill the role of supervisor and this working below your level trickles down throughout every level in the firm. By getting partners to only focus on partner-level work and delegate all of their current manager-level work down to managers, and enforcing the proper alignment of work with everyone in the firm, most firms actually end up being over-partnered. Unfortunately, they are so short-staffed that this is not possible without changing the culture of the firm and the accountability of everyone for these new expectations.

Firm Infrastructure – Policies and Procedures

Because having the appropriate infrastructure (policies, procedures and agreements, for example) in place is necessary for the successful continuation of a firm, the survey asked participants what sort of formal agreements and policies they currently have in place.

Do you have a partner agreement executed by all of the existing partners which include common policies like agreed-upon retirement benefits, partner admission terms, partner termination, etc.?

Answer		Response	%
Yes, we have a partner agreement executed by all of the existing partners.		266	63%
No, we do not have an executed partner agreement, but are in the process of drafting one and executing it in the near future.		74	18%
No, we do not have an executed partner agreement and currently do not have a plan to create one.		80	19%
Total		420	100%

Answer	1-7.99 FTEs	8-15.99 FTEs	16-25.99 FTEs	26-50.99 FTEs	51-100.99 FTEs	101-200.99 FTEs	201 or more FTEs
Yes, we have a partner agreement executed by all of the existing partners.	37%	48%	60%	85%	92%	100%	100%
No, we do not have an executed partner agreement, but are in the process of drafting one and executing it in the near future.	19%	27%	25%	11%	6%	0%	0%
No, we do not have an executed partner agreement and currently do not have a plan to create one.	44%	24%	15%	3%	3%	0%	0%
Total	70	99	65	61	36	17	13

To no surprise, the smaller the firm, the less likely they will have a partner agreement in place (37 percent at less than eight FTEs, as compared to 100 percent at more than 100 FTEs). And although the smaller the firm, the more informal the operations tend to be, it is critical that they institute more formality by way of agreements, policies and procedures to allow the firm to grow and prosper while avoiding misunderstandings that can lead to unnecessary conflict, often very damaging conflict, about such issues in the future.

Which standard operating policies/procedures has your firm formally developed and documented with powers, roles, responsibilities and limitations?

Answer	2016%	2012%	2008%	2004%
In the event of death, agreed-upon value of ownership and benefits required to buy out a partner and pay his or her estate	63%	77%	62%	
In the event of total disability, agreed-upon terms, conditions, value of ownership and benefits required to early retire that partner and buy out his or her ownership interest	56%	71%	59%	
Agreed-upon valuation method for partner ownership interest upon retirement	53%	66%	55%	
Partner roles and responsibilities	51%	58%	40%	
Partner voting rights (what policies are voted by ownership and if any, what policies are voted one person one vote)	49%	67%		
New client acceptance process and oversight	48%	67%	73%	
Billing and collection policies and oversight	46%	65%	56%	
Agreed-upon terms, conditions, benefits and damages for partners leaving the firm who take clients or employees	44%	52%	40%	
Key person insurance to cover outstanding and potential retirement obligations	41%	63%	54%	51%
Requirements for termination of a partner	41%	55%	45%	
Managing partner roles and responsibilities	41%	57%	48%	
Identified acts that can trigger termination or forced retirement of an owner (illegal activities, loss of CPA license, etc.)	41%	64%	62%	63%
Agreed-upon terms, conditions, benefits and damages for partners leaving the firm who do not take clients or employees	41%	62%	46%	
Admission of partners (buy-in and ownership)	40%	39%	37%	
In the event of partial disability, agreed-upon terms, conditions, value of ownership and benefits required to early retire that partner and buy out his or her ownership interest	38%	52%	43%	
Manager and staff roles and responsibilities	38%	56%	52%	
Vesting schedule and terms (age and years of service) needed to qualify a partner selling his or her ownership interest to earn retirement benefits	34%	63%	56%	
Managers and staff are held to identified goals each year	32%	45%	38%	
Mandatory retirement age requiring partners to sell their ownership interest	32%	47%	48%	41%
Identified acts that can trigger termination or forced retirement of an owner (misconduct like sexual harassment, public embarrassment of the firm, etc.)	32%	55%	57%	54%
Existing client new project acceptance process and oversight	31%	42%	35%	
Maximum payout of retirement payments for partners who have retired or sold their interest in the firm (this is a financial cap on total payouts to all partners receiving benefits in any given year)	31%	36%	37%	
Capital requirements for a partner	31%	39%	39%	
Voting thresholds and requirements that must be met to approve the sale/upstream merger of the entire firm	29%	33%	4%	
Expense management policy and oversight	29%			
Terms and conditions (how you will pay them and what they are allowed to do) under which retired owners can continue working for the firm	24%	64%		
While we have informal expectations, we do not have formal documented policies/procedures in the areas described above	23%			
Executive committee roles and responsibilities	21%	25%	23%	
Partner goals established each year for each partner, held accountable by the managing partner	21%	29%	28%	
Partner compensation plan tied to strategic plan (incentive pay for partners based on individual goals tied to the strategic plan)	20%			
Client transition requirements for retiring partners with accountability and damages identified in the event of improper client transition	18%	22%	14%	
Nepotism policy	14%			
Retired partner roles and responsibilities	13%	17%		
Specific recourse or cures should a retired owner not be paid in full	11%	24%	20%	9%
Ability for existing partners to reduce the retirement benefit of retiring partners due to improper client transition	9%	20%	18%	
Ability of retired owners to block an upstream merger (total sale of the business) unless their retirement benefits are paid in full prior to transaction	4%	11%	11%	9%
Ability of retired owners to block the sale of a line of business unless retirement benefits are paid in full prior to transaction	4%	7%	6%	3%

This was a “select all that apply” question, which had 397 respondents answering it. The surprising result from this question was that there was no improvement and, as a matter of fact, based on 2012 data, many of the answers are in a decline. (Many issues were being addressed more frequently then than now.)

This list of issues is what we believe should be addressed, at a minimum, in partner agreements and formal policies and procedures. The fact that the highest response was 63 percent among all of these issues is our biggest concern. Just to highlight a few issues, it seems that responses to all of these policies should be at the 90 percent level or higher (instead of where they fell in the survey results):

- In the event of death, agreed-upon value of ownership and benefits required to buy out a partner and pay his or her estate (63 percent)
- Partner roles and responsibilities (51 percent)
- Agreed-upon terms, conditions, benefits and damages for partners leaving the firm who take clients or employees (44 percent)
- Requirements for termination of a partner (41 percent)
- Vesting schedule and terms (age and years of service) needed to qualify a partner selling his or her ownership interest to earn retirement benefits (34 percent)
- Retired partner roles and responsibilities (13 percent)

We would expect to see positive responses of at least 50 percent or more for even the more operationally standard, mundane policies, such as these two examples:

- Expense management policy and oversight (29 percent)
- Nepotism policy (14 percent)

Our conclusion is that not only do far too many firms NOT have partner agreements (18 percent + 19 percent = 37 percent), but of those that do (63 percent), the agreements are not addressing many of the critical issues that commonly cause problems in successful CPA firms.

We will pick up at this point in the survey in our next article, as the conversation moves to mandatory retirement, vesting, valuation and so much more. As you will see as more of the survey results are revealed, reviewing highlights of the survey results regarding multi-owner firms, just as it did for solo practitioners and sole proprietors, will reflect the state of our profession regarding succession and why you can expect dramatic changes over the next five years. We hope you had a great tax season!!

Tight Talent Pool Drives Salary Increases

In the war for talent, "local" CPA firms face new threats from distant, bigger rivals – worldwide

By Rick Telberg
CPA Trendlines

The traditional business model of the so-called "local" CPA firm is being challenged anew by the emergence of a single, unified coast-to-coast talent market that's undermining the pay differences between big-city and small-town firms. That's bad news for traditional firms trying to control staffing costs, but great news for a new generation of top talent.

The study shows that salaries are increasing faster than inflation throughout the American market and they aren't always limited by the local cost of living. The average salary for a tax professional in New York City, for example, has risen to $77,660 this year, up from $75,400 last year. Importantly, the numbers ($77,660 this year, up from $75,400) are the same in Des Moines, Iowa, where the cost of living is substantially lower – along with the pricing sensitivity of Des Moines clients. This augurs new pressures on billing rates and profitability across the nation.

For firms, it means they are vying as fiercely for staff in New York as in Peoria, a blow to the traditional business model of the so-called "local" firm. The new and emerging business model must face up to a mobile, borderless workforce that is coming to expect big-city pay even at small-town firms.

“A major trend from last year has been the significant increase in salaries,” says Jodi Chavez, president of Randstad Professionals. “This is mostly due to strong economic growth in the past several months, as well as the baby boomer generation moving into retirement. Organizations are more comfortable spending money and they are willing to spend to get the best talent.

The survey finds that salary and benefits are still the top priorities of job candidates, ahead of such ancillary offerings as training opportunities and work-life balance.

Tax accountants in Phoenix, Ariz., on the other hand, expect to make an average of $91,567 this year, up from $88,900 last year. In San Francisco, the upper range would be $91,567 to $113,248, though the low end of the range would be as low as $64,602.

Chief financial officers are pulling down the biggest numbers. Mid-range salaries in San Francisco range from $215,903 to $350,506. New York CFOs in the mid-range are looking at $232,080 to $377,468.

The survey presents salaries for 48 areas and levels of the profession, from accounting clerk and bookkeeper through controller and CFO. Generally, the survey does not isolate salaries by the size of the company. But in public accountancy, it separates out the salaries for local, regional and national firms. It finds that the larger the firm, the higher the salaries of everyone from associate to senior manager.

Salaries are rising across the board, regardless of geographic or professional area. A bookkeeper at a small company in the Raleigh-Durham area of North Carolina was making a minimum of $33,950 last year, but $34,968 this year, perhaps as much as $43,054. The same job in the Boston area brings in just a little more – $35,535 at the low end, $47,277 at the top.

Chavez says that the talent pool continues to shrink. The number of incoming professionals at the post-collegiate level is remaining steady while the number of retiring baby boomers is increasing. The retirements are causing salaries to rise, because retirees are being replaced by new candidates who are offered higher entry-level salaries.

The desperation for talent means that companies are looking farther to find new personnel. The result is a disconnect between salaries and local costs of living.

“We see companies increasing their search for finance and accounting talent in some of the rural and smaller markets, whereas a few years ago, they weren't as excited or had much of an appetite to relocate talent that was below, say, the $75,000 level," Chavez says. "But now we're seeing an uptick in companies willing to relocate professionals at the mid-level manager position, because the demand for talent is continuing to get stronger while the talent pool is continuing to shrink."

Consequently, the CPA in Des Moines can earn just about as much as one in a major business and financial center – less, yes, but nowhere near the differential in housing costs.

The talent shortage is hardly limited to the United States. It's a global problem for the profession. The global community of local firms shares common aspirations, expectations, challenges and opportunities.

In fact, *CPA Trendlines* research finds that the talent shortage plaguing U.S. firms is now turning into a global problem. That is, by no means, a good thing. But it is another item all firms across the globe can share. And it is another chink in the armor of the so-called traditional business model of the owner-operator accounting firm, because most of the issues flow from two overriding factors: Rampant underpricing or owner greed (or both) that fails to build up capital reserves for re-investment in the business and the lack of access to other sources of funding.

It's enough to make us wonder if solutions to global problems are beyond the ability for individual nations to solve alone. Instead, multi-national worldwide strategies may be required. Maybe that's part of the reason the American Institute of CPAs (AICPA) and the Chartered Institute of Management Accountants (CIMA) jointly created a new association called the Association of International Certified Professional Accountants.

Today, owning, operating or working in a perfectly "average" firm is not necessarily a sign of success. Instead, "average" seems doomed to obsolescence in irrelevancy – and on a global scale never seen in the profession.

Recruiting and retaining qualified employees leads the list of chief challenges, by size of firm, worldwide. A new survey of more than 5,000 firms in 164 countries and 23 languages by the International Federation of Accountants (IFAC) shows that for the first time in six years, small and mid-size accounting firms around the world consider labor supplies a major issue. Not to mention, keeping up with technology is getting even tougher.

Despite these challenges, 45 percent of the world's local firms are predicting growth in advisory and consulting services this year, with 44 percent seeing new fees in accounting, compilation and other non-assurance services. To be sure, only a slight majority of 52 percent reports an overall increase in practice fee revenues, with 31 percent reporting declines and 17 percent with no discernible change.

"The ever-increasing pace of technological change represents both a challenge and opportunity," says IFAC CEO Fayez Choudhury, adding that local firms "need to consider how they can best leverage technological advances to reduce costs and offer value-added services."

Perhaps unsurprisingly, moving to the cloud emerges as a major global issue, with 38 percent of firms expecting a high impact on their competitiveness. Following close behind are the shortages of time and money to keep up with software and hardware.

Further, the study weighs eight trends that will have the heaviest impacts over the next five years. For the third year in a row, the regulatory environment emerges as the most important, cited by 56 percent of firms. Technology follows, at 52 percent, up from 43 percent last year. Third, at 45 percent, firms cite "adapting to new client needs" as a major concern, up from 36 percent last year. Next, the "perceived trust and credibility of the profession" is cited by 43 percent, up from 35 percent.

With globalized competition for both staff and clients, and new investments looming for both talent and technology, the merger frenzy that U.S. firms are now so familiar with figures to become a planetary phenomenon, as well. The merger frenzy is increasing measurably in Europe, rating concern from 32 percent of firms this year, up 6 percentage points from last year.

Accountants from Asia anticipate that mergers, acquisitions and consolidation will have a major impact on their practices, at a rate of 38 percent, followed by firms in Africa, at 37 percent, and Central and South America and the Caribbean at 35 percent. The impact of consolidation rates lowest in Australasia and Oceania, at 15 percent.

Clearly, size matters. Only 47 percent of sole practitioners report revenue gains, compared to 62 percent of the largest firms. And one-third of the smaller practices report revenue declines, compared to only 22 percent of the largest practices.

The largest firms are also the most optimistic regarding fee increases this year. Sole practitioners are the least optimistic. An analysis by region reveals considerable variability in expectations regarding fee revenue growth projections for 2017. In general, a larger percentage of respondents from Africa and Central and South America/Caribbean anticipate fee revenue increases for all service lines. Accountants in Europe and the Middle East are, in general, less optimistic.

Some two-thirds of accountants in Africa and 53 percent in Central and South America/Caribbean are forecasting fee increases in core accounting, compilation and other non-assurance services. But only 36 percent in the Middle East and 37 percent in Europe anticipate gains.

Tax is another story. Some 62 percent of accountants in Africa, 54 percent in North America and 54 percent in Central and South America and the Caribbean projected increases in tax fees. Respondents from the Middle East and Europe, at 34 percent and 31 percent respectively, are less optimistic.

The year 2017 will be a candidate-driven market, even more so than in 2016. This is due to several factors, including the large number of open positions as a result of baby boomers retiring and increased pressure on compensation causing unexpected turnover.

"The upcoming tax reform is still unknown, but will likely result in tax professionals needing to quickly change and adapt to new rules and regulations," say the authors of the *2017 Global Tax Market Assessment* from Tax Talent, a global search agency.

Non-technical skillsets continue to be in high demand in 2017 and it will now be essential for tax professionals to be able to effectively communicate within tax, cross-functional groups, business units, at the C-level and with outside advisors.

Taken together, the lessons from the vast global survey shows eight maneuvers that firms must make today to win tomorrow's competitive battles:

1. Invest in talent
2. Invest in technology
3. Shift out of low-margin commoditized services
4. Embrace high-value advisory and consulting work

5. Restrain partner greed...
6. ...Allowing more profits to be plowed back into the firm
7. Mergers are one strategy
8. Repositioning the profession to allow external funding and ownership is another.

None is easy. Few firms can do all of them at once. Some can do a few at a time. The ones that can do none may simply disappear.

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