Private Companies Practice Section

AICPA

SUCCESSION INSTITUTE

CPA Firm Succession Planning Survey

Multi-Owner Survey Report

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Survey snapshot: Five key findings

1. Succession planning is either already an issue for multi-owner firms or is looming on the horizon. A large majority of respondents (73%) expected succession planning challenges in the next 10 years. Of those firms expecting challenges, more than one-half (55%) were facing them now. Despite that fact, 57% of firms (especially firms with less than $8M in net annual revenue (NAR)) did not have a written and approved succession plan in place.

2. Merger plans are in the works. Almost one-half (46%) of multi-owner firms had been engaged in merger discussions in the past 24 months or were planning to seek merger and/or acquisition opportunities in the next two years. Almost all (82%) firms with $15M+ in NAR were currently involved in merger discussions.

3. Over one-third (40%) of firms had not addressed client transition and 70% had not addressed referral source transition. Among those that did have client transition policies, the most popular choice was for a partner to begin transferring clients to owners or managers when they were two-to-three years from retirement.

4. The overwhelming majority of firms (79%) were expecting growth overall over the next three years. Most firms, 75%, expected growth between 5% and 10% per year.

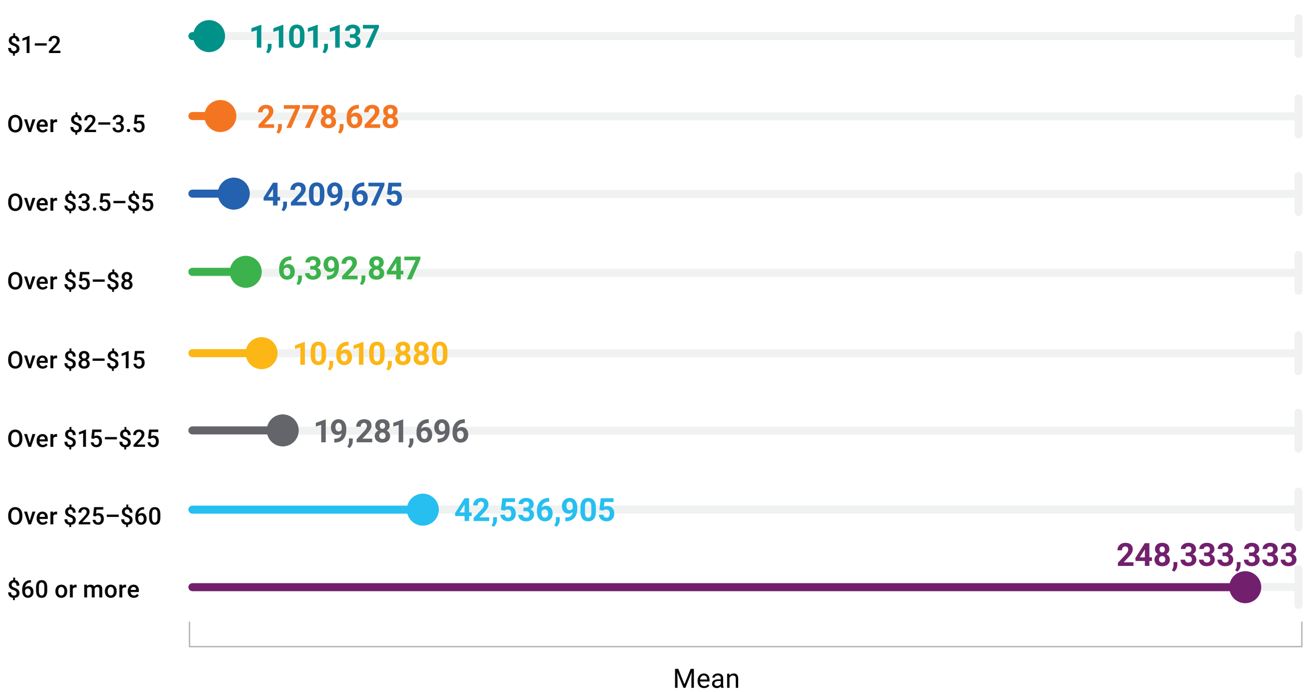
5. For most firms (88%), the COVID-19 pandemic was not expected to change the retirement horizons of senior partners. For about half (49%), their interest in mergers is also unchanged.

Who responded?

The Succession Planning Survey, conducted every four years, offers a unique snapshot of the challenges that succession planning poses for CPA firms and insights into how firms are addressing those challenges. While the survey was launched at a different time in the year than typically fielded and had a lower response rate than the 2016 survey, it was able to gather sufficient data in each category.

This report shows the results for multi-owner CPA firms. A total of **226 firms responded to the survey**. The net annual revenue (NAR) means for each size category are summarized in the following table:

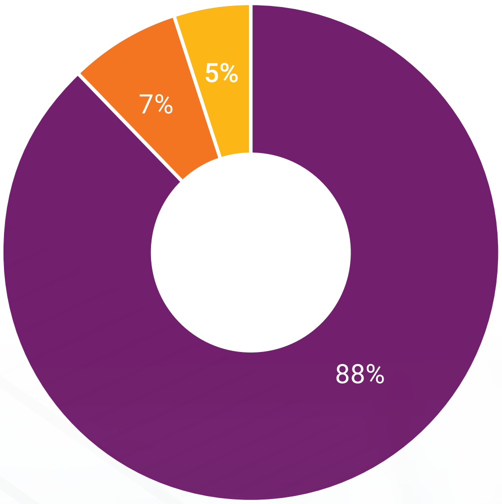
NAR range (in millions)



How did COVID-19 affect practices?

While COVID-19 was responsible for many changes in firms, a strong majority of firms (88%) did not believe that the pandemic affected their firm’s retirement plans.

COVID-19 impact on retirement plans

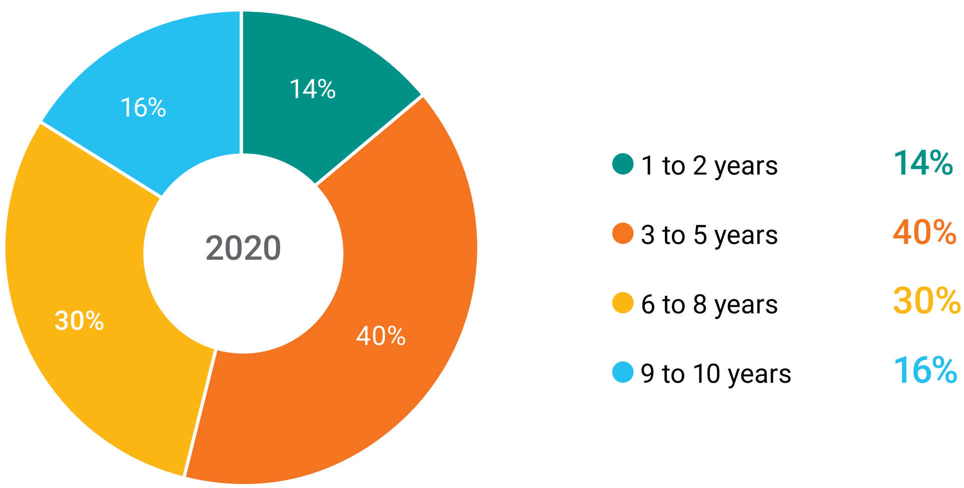


- No affect **88%**
- Lengthened time to retirement **7%**
- Shortened time to retirement **5%**

What is the state of succession planning?

Most firms (70%) expected succession planning challenges in the next three to eight years. Of those respondents, a total of 55% said they had current succession planning concerns.

When will you face succession planning challenges?



Despite that fact, 57% of firms did not have a written and approved succession plan, with firms with less than $2M in NAR least likely to have one and firms with $15M+ in NAR most likely to have one. While only 25% had a plan when this survey was first fielded in 2004, the percentage of firms that have one has plateaued in the mid-40s during the last decade.

Among firms that didn't have a plan, 62% said they planned to complete the process soon or had simply not yet formally approved their plan. Only firms with less than $8M in NAR said they did not feel the need to have a plan, and some of the smallest firms, less than $3.5M in NAR, felt that they didn't know how to start.

Firms can get started with succession planning using the PCPS Succession Planning Resources, available exclusively to PCPS members.

What is the status of your succession planning?

	2020
We have started the succession plan and will soon complete it.	45%
We have a succession plan drafted, but it has not been formally approved.	17%
We will start the succession planning process in the next year or two.	14%
We know we have a succession problem, but we don't really know how to get started putting together a plan.	12%
We do not feel the need to have a plan, written or otherwise.	5%
We will start the succession planning process in about 5 years.	5%
We will start the succession planning process in about 10 years.	2%

By firm size

In millions	$1–$2	Over $2–$3.5	Over $3.5–$5	Over $5–$8	Over $8–$15	Over $15–$25	Over $25–$60	$60 or more
No felt need	8%	2%	6%	13%	0%	0%	0%	0%
Don't know how to start	21%	17%	13%	4%	3%	0%	9%	0%
Will start in about 10 years	3%	0%	0%	0%	0%	9%	0%	0%
Will start in about 5 years	6%	7%	0%	0%	0%	9%	0%	0%
Will start in a year or two	17%	24%	6%	9%	10%	0%	9%	0%
We've started it; soon to be complete	31%	36%	63%	57%	61%	82%	45%	100%
It's drafted but not yet formally approved	14%	14%	13%	17%	26%	0%	36%	0%

Of firms that do have a plan, a majority (62%) had made significant progress towards implementation. The implementation rate was an improvement since 2016 and progress could be seen even among the smallest firms.

Where does our succession planning stand?

	2020	2016
We have a plan in place, but relatively little progress has been made towards implementing it.	9%	14%
We have a plan in place, and significant progress has been made in its implementation.	38%	30%
We have a plan in place, it has been implemented and is periodically updated to address issues as they arise.	53%	56%

More than three-quarters (78%) of firms expect the firm and the clients of the senior owners to be transitioned to remaining or new owners on retirement. The next largest group — 13% — has no plan since the issue has not been discussed, address or resolved. Smaller firms (less than $2M in NAR) make up most of the latter group.

Which of the following most likely describes the transition of your firm when the current senior owner(s) retire?

	2020
The firm and the clients of the senior owners will be transitioned to the remaining owners or incoming owners per everyone's expectation.	78%
We have no idea because we have not discussed, addressed or resolved this issue at this time.	13%
The firm will most likely look for a merger candidate due to partner confidence in the firm's continuation as an independent firm (perceived lack of strong future leadership and/or the ability of the future leadership to buy out the retiring partners).	4%
Because no one else in the firm is either interested in, has capacity for, or can do the work of the retiring partners, those retiring senior owners will likely sell off their part of the practice to some other firm and the rest of the partners will continue working in the firm just as they always have.	3%
Because no one else in the firm is either interested in, has capacity for, or has the capability to do the work of the retiring partners, those senior owners will likely sell off their part of the practice to some other firm and the rest of the partners will likely split up into multiple firms.	1%
The owners all plan to retire at the same time and shut down the firm on their final day of work. If there is a ready market to buy clients, then we will sell off our clients. If not, we will be ready to walk away and turn off the lights on our way out the door on our last day of work.	1%

What's the status of partnership agreements?

A total of 85% of firms had a partner agreement executed by all existing partners or were in the process of creating one. Consistent with past surveys, the smaller the firm (less than $2M in NAR), the less likely they were to have a partner agreement.

The chart below lists policies and procedures that firms are advised to include in their partner agreements. Many firms failed to include several important elements, including roles for retired partners (21%) and executive committee roles (21%). The majority had policies on issues such as partner voting rights (84%), admission of new partners (82%) and capital requirements for partners (70%).

Which of the following standard operating policies/procedures has your firm formally developed and documented with powers, roles, responsibilities and limitations? (Select all that apply.)

	2020
Partner voting rights (which policies are voted by ownership and, if any, which policies are voted "one person, one vote")	84%
Admission of partners (buy-in and ownership)	82%
Capital requirements for a partner	70%
Voting thresholds and requirements that must be met to approve the sale/upstream merger of the entire firm	61%
Partner roles and responsibilities	51%
Managing partner roles and responsibilities	42%
Capital call process for partners	35%
Partner goals established each year for each partner, held accountable by the managing partner	30%
Partner compensation plan tied to strategic plan (incentive pay for partners based on individual goals tied to the strategic plan)	26%
Executive committee roles and responsibilities	21%
Retired partner roles and responsibilities after sale of ownership	21%

When it came to retirement, a valuation method for partner ownership interest upon retirement was a top choice (60%). Half of responding firms had policies for partners who do or do not take clients or employees when they leave the firm.

Which of the following standard operating policies/procedures has your firm formally developed and documented with powers, roles, responsibilities and limitations? (Select all that apply.)

	2020
In the event of death, agreed-upon value of ownership and benefits required to buy out a partner and pay his or her estate	77%
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	63%
Agreed upon valuation method for partner ownership interest upon retirement	60%
Agreed upon terms, conditions, benefits and damages for partners leaving the firm who do not take clients or employees	50%
Agreed upon terms, conditions, benefits and damages for partners leaving the firm who take clients or employees	49%
Identified acts that can trigger termination or forced retirement of an owner (illegal activities, loss of CPA license, etc.)	49%
Requirements for termination of a partner	45%
Identified acts that can trigger termination or forced retirement of an owner (misconduct such as sexual harassment, public embarrassment of the firm, etc.)	42%
Mandatory retirement age that requires a partner to sell his or her ownership interest	42%
Terms and conditions under which retired owners can continue working for the firm (i.e., how you will pay them and what they are allowed to do)	42%
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	41%
Vesting schedule and terms (age and years of service) needed to qualify a partner selling his or her ownership interest to earn retirement benefits	35%
Maximum payout of retirement payments for partners that 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)	34%
Client transition requirements for retiring partners with accountability and damages identified in the event of improper client transition	28%
Specific recourse or cures should a retired owner not be paid in full	23%
Ability to reduce the retirement benefit of retiring partners due to improper client transition	20%
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%
Ability of retired owners to block the sale of a line of business unless retirement benefits are paid in full prior to transaction	1%

What are firm policies on retirement?

What are policies and accountability for retired partners?

A total of 65% had no policies on retired partners' active involvement in the firm, even though a portion of that group had retired owners working in the firm. However, the number that do have policies had risen from 24 % to 35% since 2016.

In terms of retired partner roles, the most popular options were having a retired partner who functioned as a firm ambassador (79%), worked on an annual contract (56%) or continued to be involved in business development (51%). About two-thirds (65%) of firms favored no involvement for retired owners.

Do you have a policy outlining expectations, privileges and accountability for retired partners actively working in the firm?

	2020	2016
No, and we currently don't have any retired partners actively working in the firm.	52%	60%
Yes, and we have retired partners working in the firm.	23%	17%
No, even though we do have retired partners actively working in the firm.	13%	16%
Yes, but we currently don't have any retired partners actively working in the firm.	13%	7%

Which of the following best describes the involvement of retired owners in the firm? (Select all that apply.)

	2020
Are still active in the community and have a formal role of being an ambassador for our firm.	79%
Have no involvement and no influence in firm operations.	64%
Are on an annual contract with the firm that has to be renewed each year with specific allowable activities they can perform.	56%
Do business development for the firm and bring in new clients.	51%
Are active in the community and represent the firm by serving on various boards.	50%
Still work on some of their old clients, but in a manager role because another partner handles the relationship.	47%
Do not operate under a special agreement and are allowed to continue working for the firm until they are asked to leave.	46%
Do what they have always done, but just work fewer hours.	41%
Continue to manage client relationships.	29%
Are invited to board/management meetings but don't have a vote.	21%
Are invited to board/management meetings. While they don't have a vote, they are still very influential.	20%
While they don't have a vote, they are still very influential.	16%
Do pretty much what they did before they retired.	11%
Are invited to board/management meetings and still vote.	4%

Among the range of choices for compensation of retired partners, 61% of firms make their compensation plan available to retirees if they want to continue working and the firm believes that's best, 33% will pay retirees an hourly rate for time billed to a client, and 32% will pay retirees for bringing in new business.

Which of the following describes your current compensation plan for retired owners or owners that have sold their interest in the firm? (Select all that apply.)

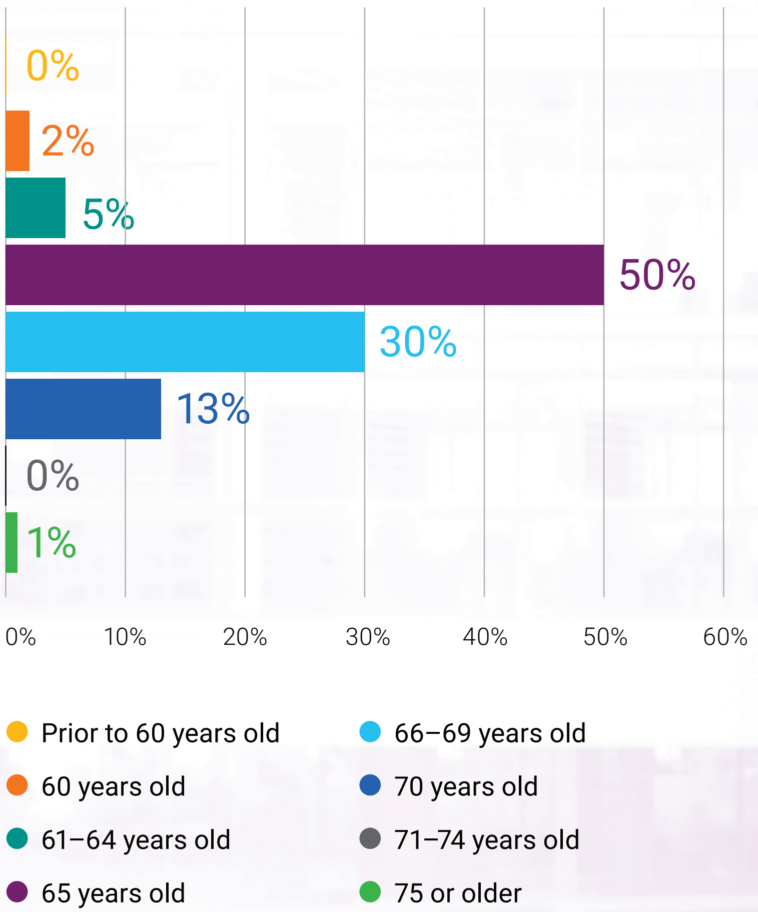
Our firm's compensation plan:

	2020
Has been/is made available to retired partners only if both the retired partner still wants to work and the firm wishes to retain them in some capacity.	61%
Will pay retired partners an hourly rate for work performed, but only if it is billable to a client.	33%
Will pay retired owners to bring in new business.	32%
Will pay retired owners a percentage of their billings or collections for client work.	31%
Will pay retired partner an hourly rate for work performed, whether that is billable work or not.	29%
Will pay retired owners a salary to continue working for the firm.	27%
Has been/is made available to every retired partner if they wish to continue working in some capacity within the firm.	17%
Will pay retired owners to remain active in the community as ambassadors for the firm; serve on boards of directors; be involved in charity events, etc.	11%
Is the same for retired partners as it is for active partners.	4%
Will pay retired owners for the book of business they continue to manage after retirement.	4%
Does not allow retired owners to continue to work for the firm in any capacity.	0%

How does the firm handle mandatory retirement or sale of interest?

A total of 56% did not have a mandatory age for sale of ownership or retirement for owners. The larger the firm ($3.5M in NAR or more), the more likely there were to have one. Among those that did have a policy, 50% set 65 as the mandatory age and nearly one-third (30%) chose 66 to 69.

What is the mandatory age for a partner to sell his or her ownership interest?



How are death and disability handled?

A majority of firms (63%) fully or partially pay for the cost of life insurance to cover the equity buyout in the event of a partner's death. Firms were split 50/50 on whether to carry disability insurance for partners.

Life Insurance: Which of the following is true regarding your firm?

	2020
Our firm does NOT carry insurance policies to cover the likely buyout due for ownership in case of a partner's death.	37%
Our firm carries life insurance policies on all partners that can reasonably be covered, for a partial amount likely due to a partner to buy out his or her ownership.	31%
Our firm carries life insurance policies on all partners that can reasonably be covered, for the full amount likely due a partner to buy out his or her ownership.	32%

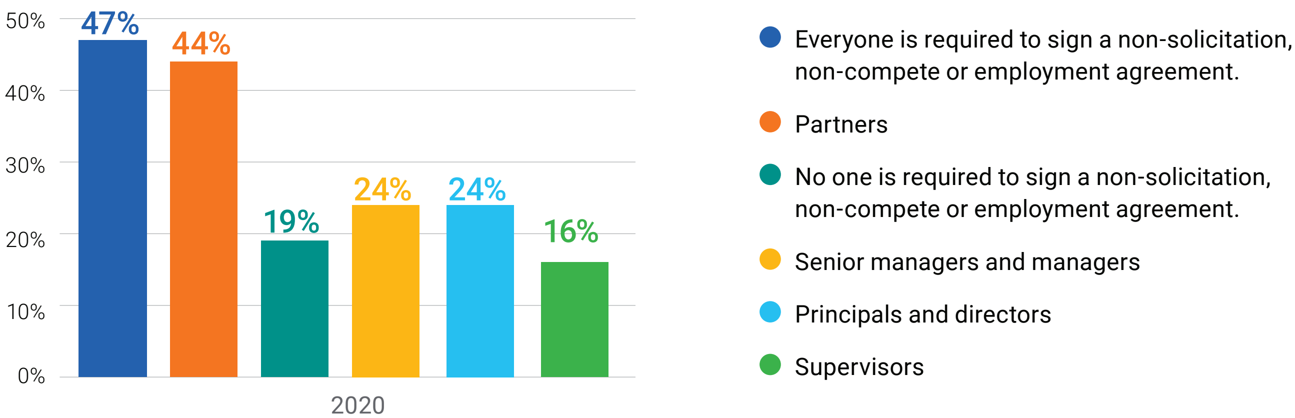
Disability Insurance: Which of the following is true regarding your firm?

	2020
Our firm carries disability insurance policies on all partners that can reasonably be covered.	50%
Our firm does NOT carry disability insurance on our partners.	50%

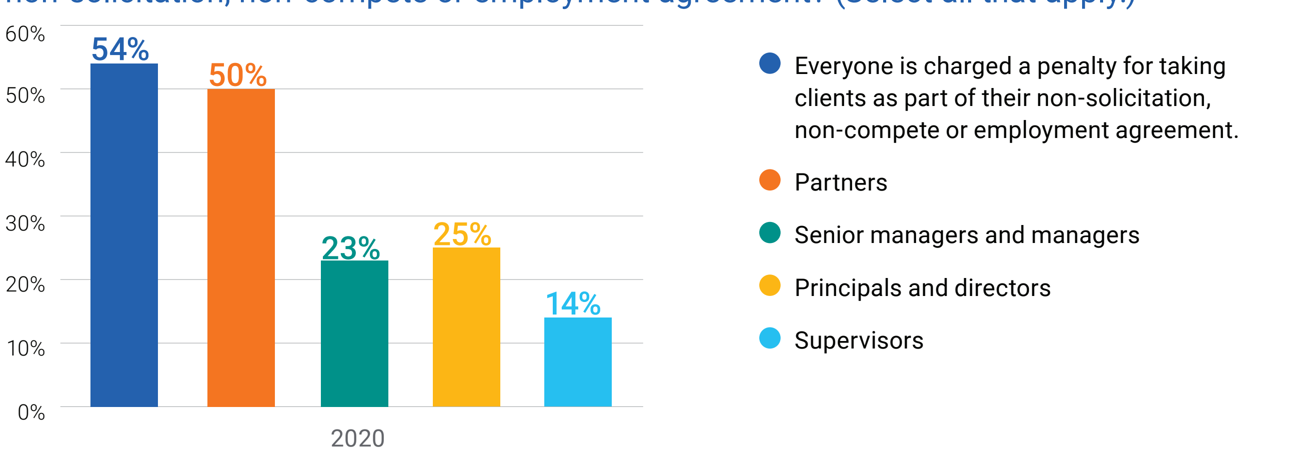
What non-solicitation and non-compete policies and penalties do firms use?

Firms generally don't allow partners to leave and take receivables, work-in-progress, or clients at no cost. Forty-seven (47%) of firms used non-solicitation, non-compete or employment agreements for all firm members while 44% used them for partners only. Most firms (54%) also charged a penalty for taking away clients. The most popular time frame for the penalty applied to clients that leave was within two years of someone's departure from the firm and the most frequent charge was a dollar-for-dollar penalty for revenue taken. Most firms (68%) did not charge for taking staff. Among those who did, a charge of 101% to 150% of salary was the most popular policy.

Who in the firm is required to sign a non-solicitation, non-compete or employment agreement? (Select all that apply.)



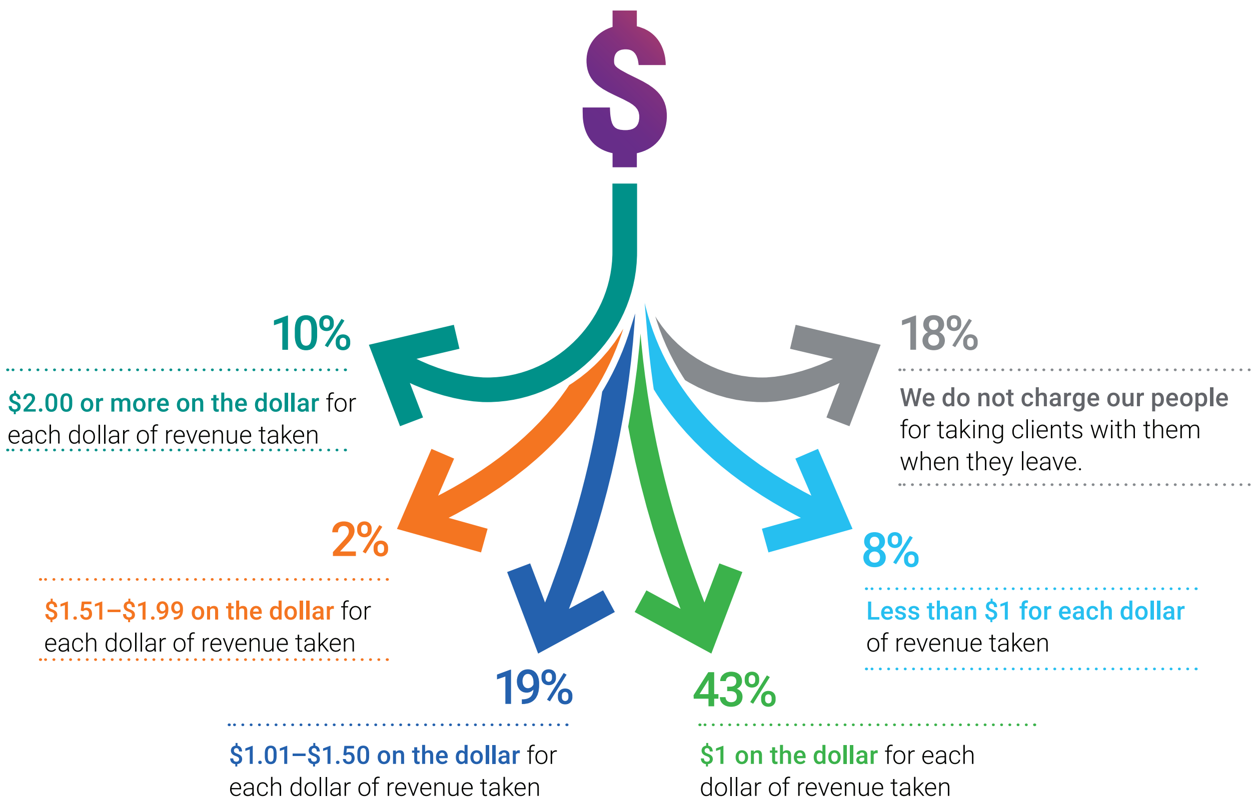
Which of the following groups are charged a penalty for taking clients as part of their non-solicitation, non-compete or employment agreement? (Select all that apply.)



Which best describes the time frame of your non-solicitation, non-compete or employment agreement?

	2020
Our people will pay a penalty for any clients that leave the firm to follow them within two years of their departure from our firm.	42%
Our people will pay a penalty for any clients that leave the firm to follow them within one year of their departure from our firm.	19%
Our people are prohibited from taking clients, but we do not have an identified penalty for taking clients.	17%
Our people will pay a penalty for any clients that leave the firm to follow them beyond two years of their departure from our firm.	15%
Our people are NOT prohibited from taking clients.	4%
Our people will pay a penalty for any clients that leave the firm to follow them within six months of their departure from our firm.	3%

How much is charged for each dollar of annualized revenue when an employee or partner leaves the firm and takes any clients?

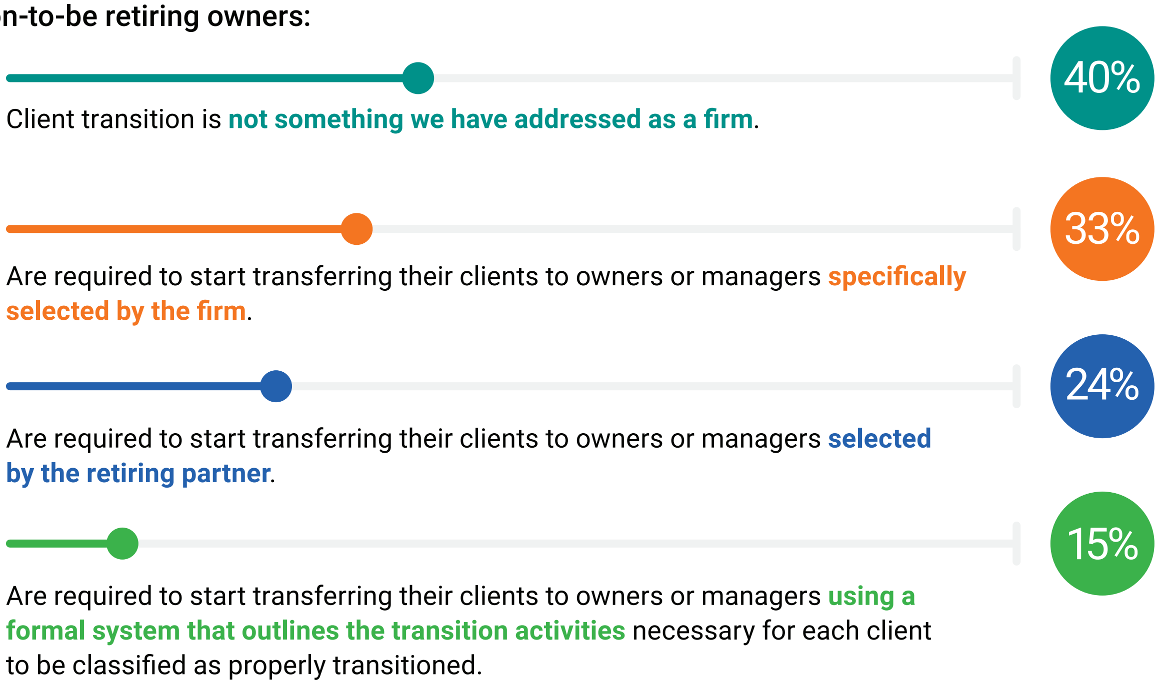


What are the policies for transitioning client relationships?

When asked about transitioning client relationships, 40% of respondents had not addressed client transition. Among those who did have policies, 33% are required to transfer clients to owners or managers selected by the firm, although about one-quarter (24%) left the selection to the retiring partner.

For soon-to-be retiring owners, which of the following describes your firm's practices for transitioning clients? (Select all that apply.)

The soon-to-be retiring owners:



Most firms (74%) do not require retiring partners to transition their referral sources.

When owners are 2 or 3 years out from retirement, which of the following describes your firm's practices for transitioning referral sources? (Select all that apply.)

The soon-to-be retiring owners:

74% — Referral source transition is **not something we have addressed as a firm**.

20% — Are required to **start transferring their referral sources to owners or managers**.

7% — Are required to start transferring their referral sources to owners or managers **using a formal system that outlines the transition activities** necessary for each referral source to be classified as properly transitioned.

Nor do most firms (78%) incentivize or penalize retiring partners to properly transition clients or achieve specific goals.

For soon-to-be retiring owners, which of the following describes your firm's rewards or penalties for transitioning clients? (Select all that apply.)

The soon-to-be retiring owners:

78% — Penalties/rewards for transition **are not something we have addressed as a firm**.

10% — Are penalized after retirement for **improperly transitioned clients that leave the firm**.

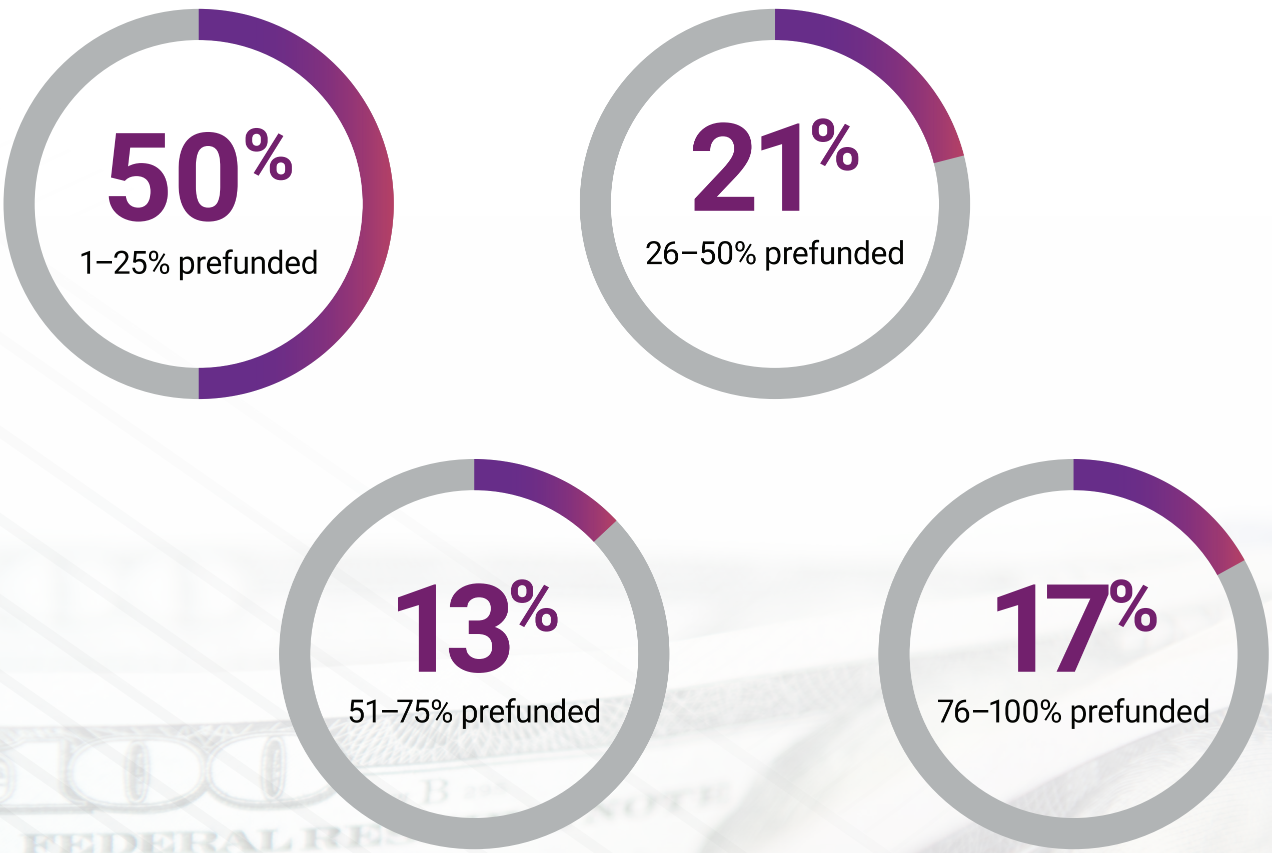
9% — Are rewarded financially during this transition period for **achieving specific client transition activities and goals**.

8% — Are penalized financially during this transition period for **falling short or non-compliance with specific client transition activities and goals**.

How do firms fund the retirement benefit?

When asked about funding the equity buyout of retiring partners, 89% of firms responded that the buyout for retiring partners was neither partially nor fully funded. Of the 11% who did partially or fully prefund the equity buyout, half prefunded between and 1% and 25%.

To what extent has your firm funded any part of the total equity buyout of your retiring partners? (This is not about funding a 401k, but rather about funding for payment for the value of the business, capital, etc.)



What are vesting requirements?

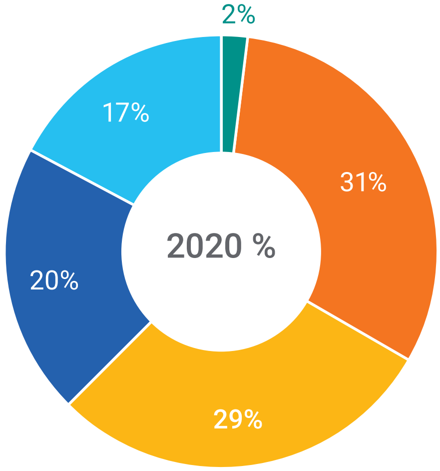
When it came to vesting requirements, 31% of firms chose the point when the partner met both a minimum number of partner service years and reached a minimum age, but there were numerous other approaches. Generally, the smaller the firm ($3.5M in NAR or less), the more likely people became fully vested the day they become a partner. Larger firms ($5M+ in NAR) were more likely to require that partners reach some combination of age and service requirements.

Vesting requirements: Under what conditions below are a partner entitled to receive retirement benefits (payments)? (Select the BEST answer.)

	2020
At any time a partner meets BOTH a minimum number of years of service as a partner AND a minimum age (you need to meet both criteria individually; in other words, you have to meet a specific number of years of service AND be a specific age).	31%
At any time after becoming a partner.	22%
At any time after a partner meets a minimum number of years of service working as a partner ONLY (only years working as a partner count towards attaining this minimum number of years).	11%
At any time after the partner reaches a minimum age requirement ONLY.	9%
At any time after a partner meets a minimum number of years of service working for the firm (including time as staff and partner) ONLY.	5%
At any time a partner meets a COMBINATION of years of service as a partner and a minimum age (like the rule of 80, where a partner needs to reach 80 by combining the number of years of service working with age to add up to at least 80).	4%
Other	17%

About one-third (31%) required five to ten years of service for full vesting and a total of nearly half (49%) required between 11 and 20 years of service for full vesting.

What is the minimum number of years of service required for partners to receive FULL (100%) retirement benefits?



- Less than 5 years 2%
- 5–10 years 31%
- 11–15 years 29%
- 16–20 years 20%
- More than 20 years 17%

Less than one-third (27%) allowed full retirement before age 60 while about two-thirds (63%) allowed partial retirement before 60. Compared to the 2016 survey, there was a 15% decrease in receiving full retirement benefits before age 60 and a 13% decrease in partial retirement before 60. This could be an indication of firms requiring their partners to work into their 60s before granting full or partial benefits.

What is the minimum age allowable for owners to retire and receive full (100%) or partial retirement benefits?

	Full		Partial	
Minimum age	**2020**	**2016**	**2020**	**2016**
Prior to 60 years old	**27%**	42%	**63%**	76%
60 years old	**23%**	15%	**14%**	13%
61 years old	**1%**	0%	**2%**	0%
62 years old	**15%**	8%	**11%**	5%
63 years old	**4%**	0%	**1%**	1%
64 years old	**0%**	1%	**0%**	0%
65 years old	**23%**	17%	**3%**	4%
66 years old	**1%**	4%	**1%**	2%
67 years old	**1%**	3%	**1%**	1%
68 years or older	**4%**	41%	**2%**	2%

What can change retirement amount or duration?

There were a number of reasons that firms might alter the payment duration, monthly payment amount or total payout amount of agreed-upon retirement benefits. The top reasons were competing with the firm after retirement (63%), taking staff (39%) and a cap on total annual retirement payments (33%).

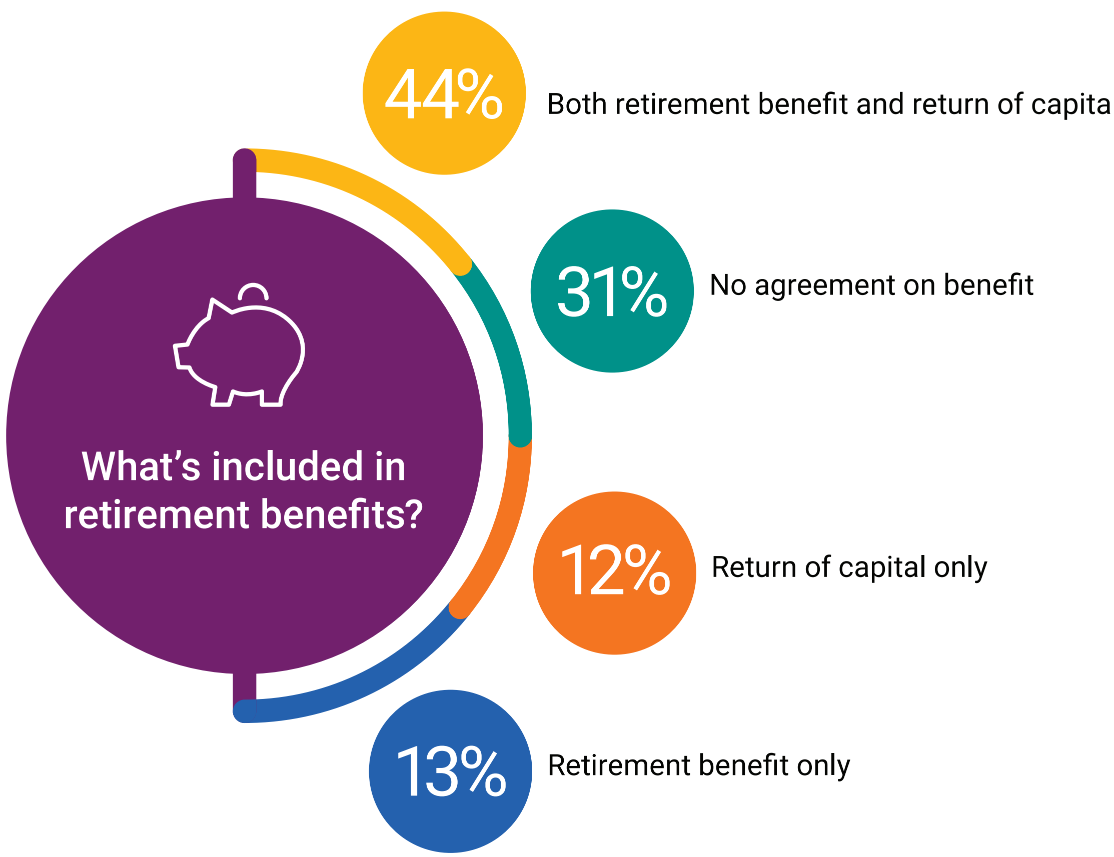
Which of the following occurrences will force a change in the payment duration, monthly payment amount, and/or total payout amount of agreed-upon retirement benefit? (Select all that apply.)

	2020
Competing with the firm after retirement	63%
Taking staff	39%
Cap on total annual retirement payments	33%
Lack of proper notice: 2 years or less	31%
Egregious misconduct or unethical behavior in the community	30%
Early retirement	24%
Firm profitability	20%
Not applicable as nothing will force a change in the payment duration, monthly payment amount, and/or total payout amount of the agreed-upon retirement benefit	19%
Lack of proper notice: 1 year or less	15%
The death of a retired partner	12%
Sale of the business	12%
Merger	11%
Loss of retiring owner's clients at any time during the payout period	11%
Uncollectible accounts receivables or work-in-progress	9%
Lack of proper notice: 6 months or less	9%
Loss of retiring owner's clients only within the first two years	7%
Liabilities incurred after retirement based on retiring owner's clients or work	5%
Sale of a line or business	4%
Loss of retiring owner's clients only within the first year	3%
Other	1%

How do firms handle payout to retired partners?

The largest number of firms (44%) chose a combination of a retirement benefit and return of capital for retired partners. To determine the amount to pay, the top two options based the number on either total net firm revenues times their ownership percentage (27%) or a multiple of their salary (23%). However, this would vary based on firm size. Consistent with prior years, the larger the firm ($15M+ in NAR), the more likely they used a multiple of salary to determine the amount owed to retiring partners.

Compared to past years, more firms (47% in 2020 versus 24% in 2016) were valuing their client book at less than $1 for $1 retained by the firm. Also, consistent with past results, a little over one-third (39%) of firms that used the ownership interest approach for valuing a retirement benefit set the value at $1 for $1 of revenue. The overwhelming majority of firms (89%) had not given retirement payments above or below what had been agreed. When there was a departure from the agreement, firms cited a variety of reasons. The most popular was special compensation for an original partner (41%).



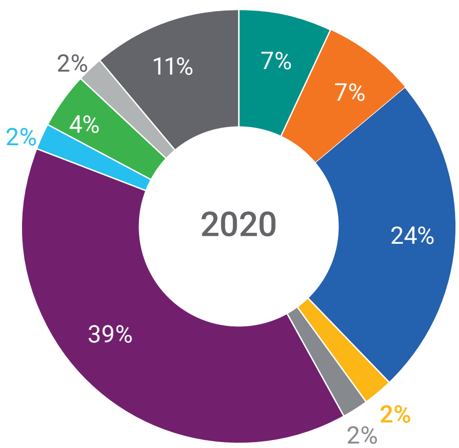
Calculation of retirement benefits: Which general methods have your firm agreed to use to determine the amount owed to retiring partners?

	2020
We have agreed to pay the retiring partners based on the total net revenues of the firm times their ownership percentage in the firm.	27%
We have agreed to pay the retiring partners based on a multiple of their salary.	23%
We have agreed to pay the retiring partners based on the gross revenues of the client book of business they leave the firm.	15%
We have agreed to pay the retiring partners using a hybrid method created to establish a basis for the distribution of a part of the earnings of the firm called AIV (average intangible capital).	10%
We have determined a fixed sum that we have agreed to pay to our retiring partners.	9%
We don't pay anything to our partners when they retire other than their capital accounts (including billable work-in-process and accounts receivables collections).	3%
None of the above generally describes what we have agreed-to pay our retiring partners/other	12%

Which best approximates how you value the client book to calculate the retirement benefit? (i.e., your firm agrees to pay the retiring partner at what cents on the dollar for clients retained by the firm)?

	2020	2016
Less than 60 cents on the $1	4%	4%
61–70 cents on the $1	12%	8%
71–80 cents on the $1	12%	8%
81–90 cents on the $1	19%	4%
91–99 cents on the $1	0%	0%
$1 on the $1	42%	70%
$1.01– $1.10 on the $1	0%	0%
$1.11–$1.20 on the $1	0%	0%
$1.21 to $1.50 on the $1	0%	0%
More than $1.25 on the $1	0%	0%
More than $1.50 on the $1	0%	4%
Not applicable	12%	4%

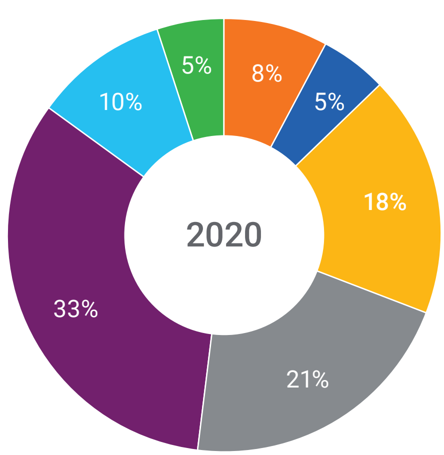
Which best approximates how you value the ownership interest in the firm to calculate the retirement benefit (i.e., your firm agrees to pay at what cents on the dollar for ownership times net annual revenues?



- Less than 60 cents on the $1 — 7%
- 61–99 cents on the $1 — 7%
- 71–80 cents on the $1 — 24%
- 81–90 cents on the $1 — 2%
- 91–99 cents on the $1 — 2%
- $1 on the $1 — 39%
- $1.01–$1.10 on the $1 — 2%
- $1.11–$1.20 on the $1 — 4%
- More than $1.21 — 2%
- Not applicable — 11%

Firms using a multiplier from 2.0 to 3.0 times average salary is an approach that has held somewhat steady over the last few surveys, as has the percentage using more than 3.0 times average salary.

Which of the following best approximates the magnitude of the multiplier you use pertaining to average salary to calculate the retirement benefit (i.e., your firm agrees to pay what multiple times salary)?



- Less than one year's salary — 0%
- One year's salary — 8%
- One year's salary times 1.5 — 5%
- One year's salary times 2.0 — 18%
- One year's salary times 2.5 — 21%
- One year's salary times 3.0 — 33%
- More than three times salary — 10%
- Not Applicable — 5%

Why did your firm pay a retiring partner above or below the originally agreed upon calculation? (Select all that apply.)

	2020
Partner was a founder of the firm and wanted special compensation for that role.	41%
Partner's lack of performance warranted the adjustment.	23%
Partner did not adequately transition client relationships.	18%
Partner's exceptional performance warranted the adjustment.	18%
Partner did not work long enough to meet vesting requirement.	18%
Client base was of marginal interest to the firm so we cut a special deal.	12%
Partner left without adequate notice.	12%
Partner left to compete with the firm.	12%
Partner serviced a unique specialty niche.	12%
Partner's unethical behavior or egregious acts warranted the adjustment.	6%
Partner wouldn't agree to transfer his/her client book without the additional incentive.	6%
Partner was offered this amount in lieu of termination.	6%
Partner wouldn't agree to retire without the additional incentive.	6%
Other	23%

What infrastructure will facilitate leadership transition?

Firms appear to be developing policies that will enhance quality firm and succession management in terms of leadership roles and responsibilities; accountability; coaching, training and development; and leveraging work and delegation. The charts below show some of the best practices covered.

Please select any initiatives/processes you are implementing or have implemented to facilitate seamless transition in governance with minimal disruption of profitability, culture, services, etc. between the retiring owners and the remaining owners? (Select all that apply.)

	2020
Roles and Responsibilities	
Creating clear roles, responsibilities, powers and limitations of your leadership team, including the board, executive committee (if you have one) and managing partner roles.	75%
Creating clear roles, responsibilities, powers and limitations for partners, including line partners, service line owners, department heads, etc.	60%
Setting policy that any new managing partner should be able to fill that position, assuming they are doing a good job, for approximately ten years or more to create stability and continuity rather than electing the next most senior partner to that position.	34%
Accountability	
Moving away from the or the "silo" model of operations (where each partner operates very autonomously, with only limited, if any, commitments to and accountability for achieving firm-wide goals) to more of a "one firm" model (where partners are held fully accountable by the managing partner for achieving their portion of the firm's goals and for maintaining a minimum level of competency across a broad range of areas).	71%
Updating the partner compensation system so that the managing partner can hold partners accountable for achieving annual specific goals.	50%
Holding partners accountable for operating policies, procedures and individual goals using compensation as a method to reward or punish compliance.	48%
Creating more focus and oversight on how partners are utilizing their non-chargeable time to implement and support firm priorities.	43%

	2020
Coaching, Training and Development	
Implementing training throughout the firm on topics such as management, delegation, communication, conflict, change, etc.	77%
Implementing training to close technical competency gaps at every level throughout the firm.	70%
Creating an organizational structure in which each person has only one person who is responsible for assisting with that person's necessary coaching, development and evaluation, and is accountable for that person's performance.	28%
Implementing a formal partner-in-training program.	26%
Leveraging Work and Delegation	
Making it a priority for everyone to delegate work at every level	79%
Moving from an upside-down pyramid (or hour-glass shape) from a capacity standpoint to a right-side up pyramid so that staff remain busy (because of more delegation and employee development) freeing up people at the higher-level positions in the firm to complete their primary responsibilities (client relationship development, implement firm strategy, etc.)	49%
Requiring the partners to spend more time managing client relationships and less time processing the work in the office	46%
Requiring partners to manage bigger books of business by delegating work to create more leverage	32%
Other	
Changing the way you operate so that the firm is not built around the expectation that everyone, including partners, should work excessively long hours	44%
Implementing "lean" methodology or other process improvement approaches to streamline firm operations	34%
We are doing none of the above to set up a seamless transition from our current generation of owners to the next generation of owners	31%
Recently updated, or are updating, your partner/retirement agreements to reflect current needs	30%

Which of the following are you doing right now to develop the future leaders of your firm? (Select all that apply.)

	2020
Identification of, and training for, specific competencies (preferably based on a competency model)	39%
Formal training or education in soft skills like management, assertiveness, handling conflict, communication, change, etc.	38%
Formal leadership (partner or manager) development programs	35%
Formal external staff training programs	33%
Experiential assignments chosen to develop competencies	30%
Formal coaching program	29%
Formal mentoring program	27%
No employees or partners to develop at this time	5%
Nothing is being done at this time	23%

To learn more about developing a future leaders, utilize the PCPS mentoring and coaching tools, available elusively to PCPS members. Also consider the [CPA Firm Competency Model] to identify the core skills required at each role within the firm. These are included with your firm's PCPS membership.

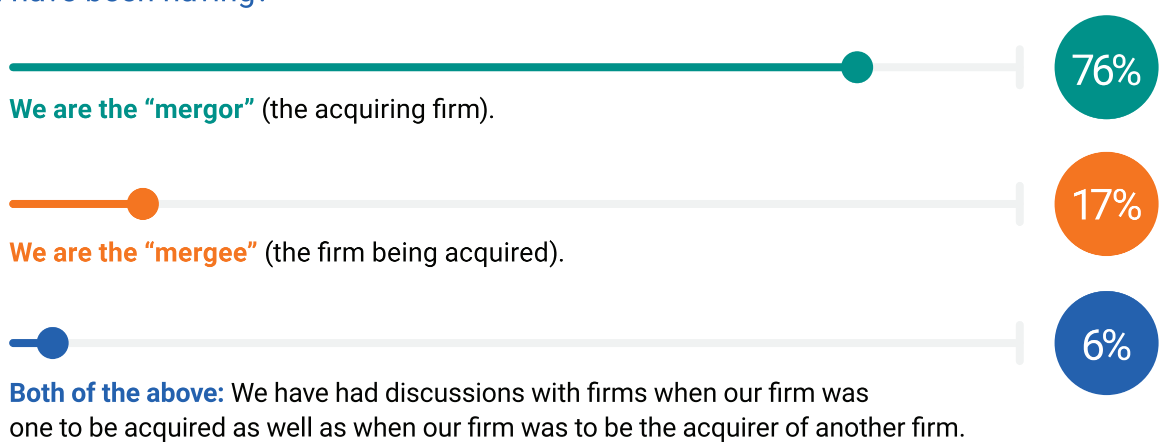
What is the status of mergers and acquisitions?

Merger plans seem to be in motion. A total of 46% said they had been engaged in discussions in the past 24 months or were planning to look into M&A opportunities in the next two years. Most of these — and a larger percentage than in 2016 — will be the acquiring firm.

All firms with over $25M in NAR were involved in discussions, or planned to be, but at least 36% were engaged in talks in every firm size segment. Interestingly, firms in the $1M to $2M in NAR group show as high an interest in being an acquirer as do many larger firms. As might be expected, firms in the $25M in NAR or more category haven't considered being acquired.

In millions	$1–$2	Over $2–$3.5	Over $3.5–$5	Over $5–$8	Over $8–$15	Over $15–$25	Over $25–$60	$60 or more
Yes	43%	45%	53%	36%	38%	62%	100%	100%
No	57%	55%	47%	64%	62%	38%	0%	0%

Which best describes your role in the merger and acquisition discussions you have been having?



Which best describes your role in the merger and acquisition discussions you have been having?

For firms of all sizes, merger targets of 10% to 30% of the acquiring firm's annual revenues are fairly common. Very few firms were seeking firms the same size as or larger than theirs. The most sought-after acquisition target segment was firms with revenue up to $2M in NAR. The larger the firm, the more interested they are in acquiring other larger firms. Although a few firms had suitors with about the same size revenue as theirs, most were getting interest from firms ranging from one and one-half times to ten times their annual revenue, with higher concentrations at four times and at more than 10 times.

In millions	$1–$2	Over $2–$3.5	Over $3.5–$5	Over $5–$8	Over $8–$15	Over $15–$25	Over $25–$60	$60 or more
Mergor	76%	60%	78%	89%	77%	75%	100%	100%
Mergee	18%	30%	11%	11%	23%	13%	0%	0%
Both	6%	10%	11%	0%	0%	13%	0%	0%
Total	33%	20%	9%	9%	13%	8%	11%	3%

For firms of all sizes, merger targets of 10% to 30% of the acquiring firm's annual revenues are fairly common.

What initiatives do CPAs use to increase firm value?

Which are you doing to make your firm more profitable, increase its value or make it more attractive to an external buyer? (Select all that apply.)

	2020
Leveraging technology whenever possible	84%
Streamlining workflow and processes	78%
Delegating — handing off lower-level work	73%
Increasing fees/billing rates	69%
Growing the overall top line	67%
Acquiring higher quality clients (larger and/or more sophisticated)	65%
Firing low-quality clients (those that don't pay on time, abuse staff's time, etc.)	64%
Spending more time training your people	61%
Growing the overall bottom line	49%
Recording all of your time to better understand the actual cost of servicing a client instead of not recording the time due to the assumption that you won't bill it anyway	47%
Utilizing more than one billing rate to recover for the inefficiencies that are present in various lines of service	44%
Converting lower-quality clients to higher-quality clients that utilize more of your firm's services and value what you do	44%
Hiring someone to provide one more contact point for your clients as well as free you up to just do the higher-level work	30%
Discontinuing deep discounts for work in slow periods	20%

In addition to raising fees, the results show greater use of several other best practices to increase firm value such as:

- Leveraging technology
- Streamlining workflow and processes
- Delegation of lower-level work
- Acquiring higher-quality clients and disengaging with lower-quality ones
- Spending more time on training

What other business services are firms offering?

The most popular business services that firms were offering were consulting advisory services (63%) and client advisory services (75%). Most firms (79%) don't operate these services through separate legal entities.

Which of the business service lines below do you operate? (Select all that apply.)

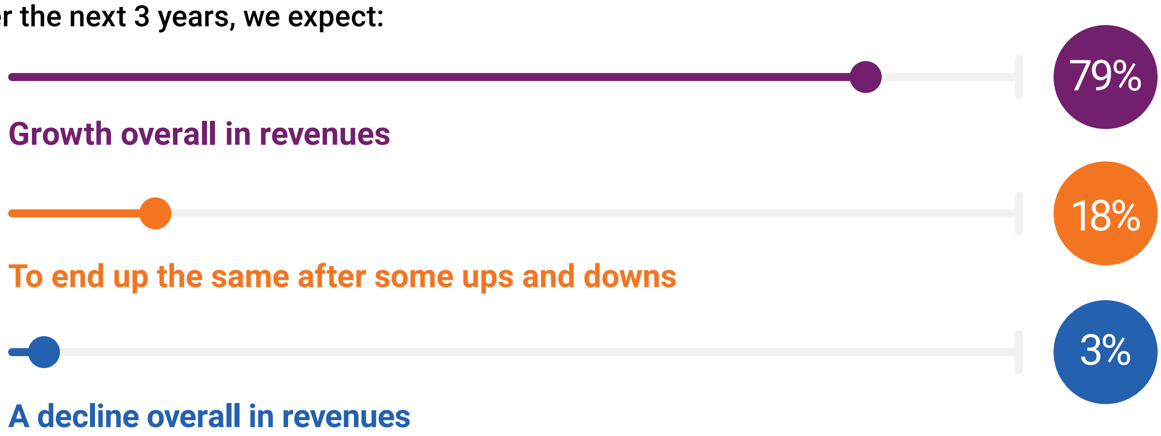
Service line	2020
Client accounting services	75%
Consulting/advisory	63%
Wealth management	25%
Merger and acquisition	20%
Technology	16%
SOC (systems and organization control)	9%
Data analytics	8%
Cybersecurity	7%
Recruiting or headhunter	6%
Artificial intelligence/robotics (RPA, Bots, etc.)	2%
Data monitoring/data protection	1%
Other	8%

Few firms (14%) are presently using outsourcing or outsourced personnel with most firms (69%) expressing no interest in outsourcing.

What level of growth is projected over the next three years?

Firms emerged post-COVID with very positive outlooks for the years ahead. The overwhelming majority of firms (79%) were expecting growth over the next three years. Most firms of all sizes that anticipated ongoing growth thought it would be between 5% and 10% per year.

Over the next 3 years, we expect:



What is the average expected annual percentage growth in net revenues during this [three-year] period?

Answer	%
2	1%
3	7%
4	2%
5	37%
6	4%
7	9%
8	8%
10	17%
12	3%
13	1%
15	7%
20+	5%
Total	100%

What are the next steps for my firm?

Here are actions practitioners can take based on the results of the 2020 Succession Planning Survey:

- **Create a formal succession plan.** Have a frank discussion with your partners and determine their retirement timelines. Work backward to develop a schedule for transitioning clients and referral sources to other owners and managers. Identify skills gaps and train existing staff or hire externally as necessary. Use the PCPS Partner accountability and unity guide, available exclusively to PCPS members, to achieve partner consensus. Address critical policies such as partner roles and compensation (if any) and damages for taking clients and/or staff.

- **Define acquisition criteria.** When evaluating acquisition candidates clearly define desirable attributes and the expected outcomes post- transaction. Consider the net annual revenues (NAR) of acquisition candidates, ideally targeting firms with 10% to 30% of your NAR. Too small of a target may not be financially rewarding to warrant the time, energy and effort while too large may present operational, capacity and other challenges. Also, review your firm's skills, knowledge, capacity and technology gaps and how an acquisition candidate may fill or widen those gaps.

- **Leverage your COVID-19 experiences.** COVID-19 brought about work-from-home mandates, forcing firms to adopt technologies to enable remote work. Firms quickly became proficient at utilizing these technologies to both communicate with one another and perform client services that, up until this point, we thought could only be done in person. The top three choices to increase your firm's value — levering technology, streamlining workflow and processes, and delegating — can all be accomplished using this newfound comfort with technology we adopted during COVID.

Many firms reported developing deeper client connections during COVID, as they provided much-needed business relief advisory services during clients' darkest days. Leverage these closer connections with your clients to identify additional service opportunities and meet your firm's growth goals post-COVID. Use the PCPS Research tactics checklist and the Client goals and challenges worksheet, available exclusively to PCPS members, to determine additional services and support you can provide your clients.

The Private Companies Practice Section's (PCPS), Succession Planning Resource Center, exclusively available to PCPS members, provides invaluable guidance, resources, and templates to walk you through the process and the options available. Email pcps@aicpa.org for more information.

The AICPA's Private Companies Practice Section (PCPS) is an add-on firm membership section supporting CPA firms of all sizes in the everyday intricacies of running a practice by providing practical and customizable practice management resources.

The 2020 CPA Firm Succession Planning Survey was administered by the Succession Institute, LLC. Succession Institute, LLC is a management consulting firm that provides a wide range of general management consulting services to clients located throughout North America.

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