



Succession Planning for CPA Firm Owners

How Can CPA Societies Facilitate the Process?

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2011

Table of Contents

Introduction	3
Executive Summary	4
Study Methodology	5
Demographics	6
Key Issues	
Lack of Succession Planning	10
Member's Choice of Planning Methods	15
Function of the CSCPA	17
Conclusion	20
Researchers.....	20

Introduction

Over the next five to fifteen years, baby-boomer CPA firm owners will reach retirement age, yet according to the 2008 American Institute of Certified Public Accountants (AICPA) Private Companies Practice Section (PCPS) Succession Survey, only 35% of multi-owner firms and 9% of sole proprietor firms have planned for their firm succession.¹ More recently, the 2010 AICPA Management of the Accounting Practice (MAP) survey results reported that only 30% of the 117 firms participating from the New England states had a succession plan in place.²

The Connecticut Society of Certified Public Accountants (CSCPA) is the professional membership association for CPAs in the State of Connecticut. Approximately 55% of the CSCPA members are age 50 or older. Each year, the CSCPA includes programs regarding firm succession in its offerings for continuing professional education, but lacks a comprehensive program regarding firm succession planning. While the AICPA has done research on a national scale outlining the lack of succession planning, little of the research specifically relates to CPA firm owners in Connecticut. The leadership of the CSCPA expressed interest in exploring the needs of the CSCPA members as they relate to firm succession planning.

The survey aimed to identify what function state CPA societies can have in assisting publicly practicing members in planning for firm succession. Secondly, the survey helped determine what types of information and services related to firm succession publicly practicing members of a state CPA society expect the society to provide to the membership. The research results provide guidance for the development of a model educational outreach program for CPAs in public practice undergoing retirement and firm succession planning.

¹ American Institute of Certified Public Accountants (AICPA). (2008). *The 2008 PCPS Succession Survey*. Retrieved from http://www.aicpa.org/InterestAreas/PrivateCompaniesPracticeSection/Resources/SuccessionPlanning/DownloadableDocuments/2008_PCPS_SucceSSION_Research_Report%5B1%5D.pdf

² American Institute of Certified Public Accountants (AICPA). (2010). *2010 PCPS/TSCPA National Map Survey*. Retrieved from AICPA website: http://www.aicpa.org/catalogs/masterpage/Gateway.aspx?GAURI=http://login.secure.aicpaloginsecure.org/GetAccess/Pmda?MDURI=aHR0cDovL3d3dy5haWNwYS5vcmevSW50ZXJlc3RBcmVhcy9QcmI2YXRlQ29tcGFuaWVzUHJhY3RpY2VTZWNoaW9uL1Jlc291cmNlcy9OYXRpb25hbE1BUFNlcnZleS9Eb3dubG9hZGFibGVEb2N1bWVudHMvMjAxME1BUE5hdGxSZXN1bHRzRklOUwucGRm&SD=.aicpa.org&GA_RESOURCEID=PCPSCenterArea&APPID=PCPSCenterArea&REQUIRI=http://www.aicpa.org/InterestAreas/PrivateCompaniesPracticeSection/Resources/NationalMAPSurvey/DownloadableDocuments/2010MAPNatResultsFINAL.pdf

Executive Summary

The following results were derived from a survey of existing CSCPA members who are managing partners, general partners, or principals in public accounting, not currently listed as retired.

- Ninety-eight percent of sole proprietors have no written succession plan in place while 59% of multi-owners have no written succession plan. Males were more likely than females to have a succession plan in place.
- The respondents with no succession plan cited *I have not decided what succession approach I want to take for my retirement* as the most common reason. Another significant reason cited was *there is no one working at my firm qualified to become my successor*.
- Eighty-four percent of those with plans indicated their plan involved transitioning to someone within the existing firm. However, 44% of respondents without a succession plan indicated that *there was no one at the firm qualified to become my successor*. Identifying and developing potential successors may be an area where individuals thinking about succession planning need assistance.
- One hundred and seventy-seven respondents or 91% indicated either that the CSCPA should develop comprehensive educational programs or run seminars that deal with succession issues.
- The top four responses to the follow up question: *What type of information should the CSCPA provide that would be helpful with succession planning issues* were:
 - *Articles on various succession issues*
 - *List of frequently asked questions and answers*
 - *Planning suggestions and timeline*
 - *Lists of upcoming CPE seminars on succession topics*

Study Methodology

The CSCPA is the professional membership association for CPAs in Connecticut and has a current membership of approximately 6,000 individuals in public practice, business and industry, government, and education. The CSCPA provides advocacy, community, and education for its members. Each state in the United States has a similar professional membership association for CPAs.

The CSCPA maintains a computerized database containing demographic information provided by the members. The study population included 1,519 members of the CSCPA who were managing partners, general partners, principals, or sole proprietors in public accounting, not currently listed as retired, and who have provided email addresses to the society. In May 2011, the study population received an email from the CSCPA explaining the study and inviting them to participate in the online survey. The CSCPA sent a follow up email two weeks later to the members who did not open the original email. The survey remained open for the month of May 2011 and 194 (or 13%) of the population completed the survey.

In addition to obtaining information about the succession planning needs of the respondents, the survey addressed two research questions:

1. What function, if any, state CPA societies can have in assisting publicly practicing members in planning for firm succession?
2. What types of information and services related to firm succession, if any, do publicly practicing members of a state CPA society expect the society to provide the membership?

Note that the application of the study data is limited to those survey respondents who voluntarily agreed to participate in the survey. Different results may have occurred if the entire study population had participated or if population had included different criteria. Care should be taken when attempting to apply results to other populations.

Demographics

The 194 survey respondents were from a database comprised of 1,519 members of the CSCPA who are managing partners, general partners, or principals in public accounting, not currently listed as retired. The survey captured data across a representative range of the study population.

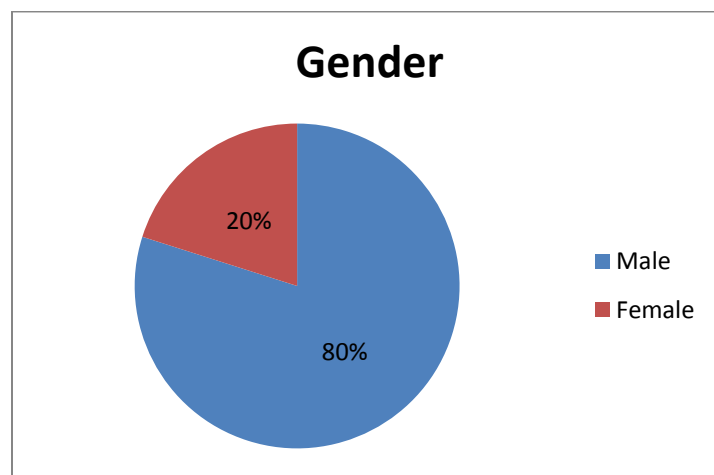


Figure 1.

By gender, the respondents to the survey were comparable with the demographic profile of the study population with a slightly higher percentage of female responding to the survey. The study population was comprised of 84% male and 16% female, whereas the respondents, as shown in Figure 1, were 80% male and 20% female.

The survey asked respondents to provide the number of partners in their firm. Of the 194 responses, 55% reported operating sole proprietorships and 45% reported operating multi-owner firms. This result is slightly askew to the makeup of the study population of 42% sole proprietorships and 58% multi-owner firms, illustrating that sole proprietors may be placing succession planning as a key priority in their lives. When the results were analyzed further, female sole proprietors made up the largest percentage of respondents. A further breakdown by genders and firm size appears in Table 1.

TABLE 1. Firm Size					
	Sole Proprietor	1-2 Partners	3-5 Partners	6-10 Partners	More than 10 Partners
Male	54.8%	18.7%	17.4%	3.9%	5.2%
Female	56.4%	20.5%	15.4%	7.7%	
Total	55.1%	19.0%	17.0%	4.7%	4.1%

The age of respondents to the survey was a broad range of age groups. As indicated in Table 2, the survey showed three significant age groups of respondents: 50-54 years old (22%), 55-59 years old (24%), and 60-64 years old (19%). Of note, more than half (52% or 101) of all respondents indicated they were 55 years of age or older. Sole proprietorships constituted the largest percentage of these respondents at 59% and multi-owner firms at 41%. An even greater concern is that all the respondents from multi-owner firms indicated that one or more partners in the firm were 55 or older, including themselves. Given this demographic trend, it is likely that over the next several years a majority of these sole proprietors and multi-owners firms will seek retirement and are at an essential point for developing succession plans.

TABLE 2. Age of Respondents		
	Male	Female
Younger than 45	5.2%	10.3%
45-49	12.3%	17.9%
50-54	21.9%	20.5%
55-59	23.9%	25.6%
60-64	18.7%	17.9%
66-69	9.7%	7.7%
70 or older	8.4%	

Figures 2 and 3 summarize the ideal age for retirement for the different age categories and gender. It is interesting to note that 61.5% of female respondents felt 65 to 69 to be the ideal retirement age and their male counterpart were more evenly distributed between 65 to 69 and 70 or older at 35.5% and 39.3% respectively.

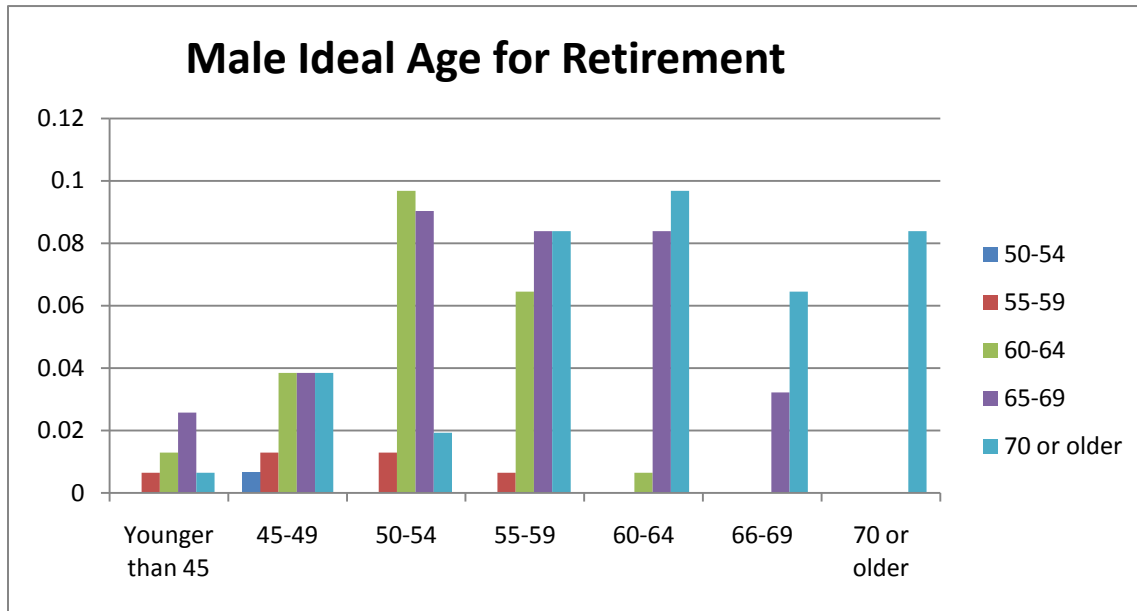


Figure 2.

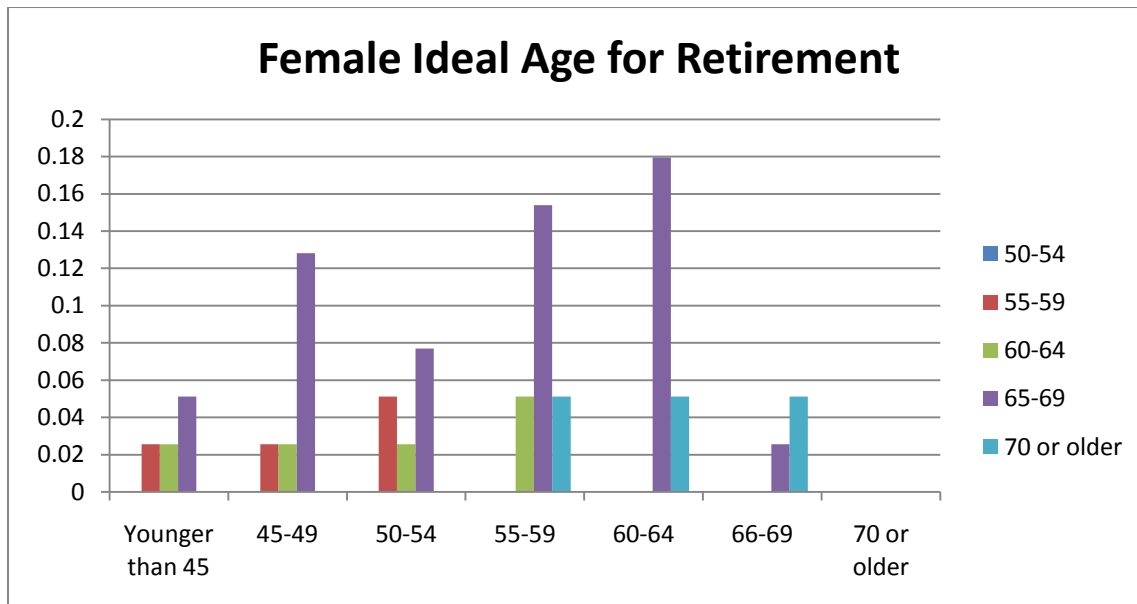


Figure 3.

Numerous factors influence the timing of one's retirement. As seen in the current economy, many individuals are postponing retirement. Rising health care costs, decline in pension values, higher cost of living, and the possibility of new legislation for Social Security benefits contribute to the delay of retirement. The first important step in succession planning is developing a timeline. Anticipated retirement age is the starting point to this transition process. Firm owners may feel they have plenty of time for planning or many years until retirement. Figure 4 shows the responses relating to number of years until anticipated retirement. More than 20% of those respondents with no succession plan had six or fewer years until their anticipated retirement date.

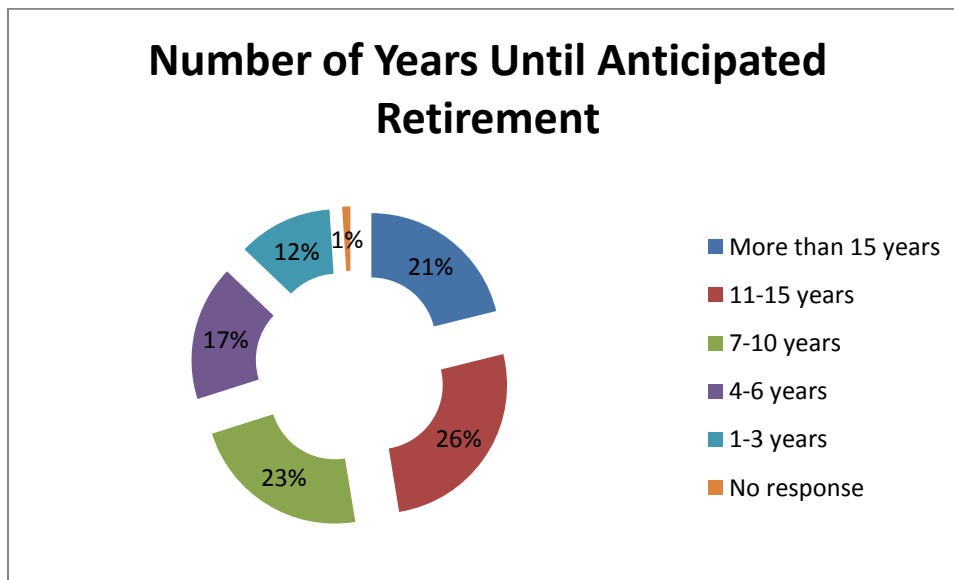


Figure 4.

Key Issue Number One: Lack of Succession Planning

One of the key objectives of the study was to gain an understanding of the number of firm owners who have not developed a written succession plan and the reasons for the lack of planning. The potential for different dynamics for sole proprietorships and multi-partner firms led to a separate analysis of the two groups. Analyzing by gender explored additional possible differences. Of the 194 respondents, 105 sole proprietors and 51 partners did not have written succession plans and only 2 sole proprietors and 36 partners did have written succession plans. The distribution by firm type and gender is as follows in Table 3:

TABLE 3. Plan or No Plan by Firm Type and Gender

	Gender	No Plan	Plan
Sole Proprietors			
	Male	83	2
	Female	<u>22</u>	<u>0</u>
	Total	105	2
Partners			
	Male	41	29
	Female	<u>10</u>	<u>7</u>
	Total	51	36

The lack of planning by sole proprietors is problematic, yet not surprising. According to the 2008 American Institute of Certified Public Accountants (AICPA) Private Companies Practice Section (PCPS) Succession survey, only 9% of sole proprietor firms had planned for their firm succession, whereas 35% of multi-owner firms surveyed in the AICPA study had a written plan.³ Similarly, the 2010 AICPA Management of the Accounting Practice (MAP) survey results reported that only 30% of the 117 firms participating from the New England states

³ *Supra*, Note 1

had a succession plan in place.⁴ The AICPA results ranged from 12% for small firms with less than \$500,000 in annual revenue to 50% for large firms with annual revenue greater than \$1,500,000.⁵ Additional results from the AICPA MAP survey showed that 43% of small firms and 22% of large firms had no succession plan at all.⁶

In the current study, 2% of the sole proprietors and 41% of the partners had written succession plans. An overwhelming 98% of the sole proprietors had no plan. As indicated in Table 3, males were more likely than females to have a succession plan in place. Respondents who indicated that they did not have a succession plan in place were given the opportunity to choose from 12 possible reasons for the lack of planning. Respondents were encouraged to choose any that applied. The reasons chosen, listed in order of frequency, appear in Table 4.

The most commonly cited reason was *I have not decided what succession approach I want to take for my retirement*, indicated by 52% of the respondents. Sixty-nine respondents, or 44%, selected *There is no one working at my firm qualified to become my successor*. The combination of these two responses may highlight a significant issue for the firms belonging to the CSCPA. Forty-two of the 81 people indicating that they had not decided on a succession approach also indicated that there was no one working at the firm who was qualified to take over.

The third most prevalent reason cited, *My retirement is not contingent upon a succession plan because I have other retirement resources available to me*, may identify a group of firm owners who are simply not concerned with succession issues or for whom there is little urgency to develop a plan. Of the 36 respondents who selected this option, 21 also indicated that they have not decided what succession approach to take. The remaining responses, while important, all had less than a 20% response result. Table 4 summarizes all the responses for the total group of respondents.

⁴ *Supra*, Note 2

⁵ *Id*

⁶ *Id*

TABLE 4. Why The Firm Does Not Have A Written Succession Plan – Total Group

	Count	Percentage
I have not decided what succession approach I want to take for my retirement.	81	52%
There is no one working at my firm qualified to become my successor.	69	44%
My retirement is not contingent upon a succession plan because I have other retirement resources available to me.	36	23%
I believe I still have plenty of time to develop a succession plan	28	18%
I am too busy.	27	17%
I am not ready to think about my retirement	23	15%
I do not know how to start developing a plan.	16	10%
Other.	15	10%
I am hoping a family member will enter the profession and become my successor	13	8%
My firm does not have the economic resources to support a buyout of my interest.	7	4%
I am waiting for the economy to improve so I can afford to retire.	4	3%
I am waiting for the economy to improve because I hope the value of my firm will increase.	1	1%
Note: Respondents checked all that applied.		

Recognizing that the needs of the sole proprietor and the multi-owner firm may be different, Table 5 outlines the three most prevalent reasons for lack of a plan cited for sole proprietors and multi-owner firms of various sizes. For sole proprietors, both male and female, the top reason was *I have not decided what succession approach I want to take for my retirement*, followed closely by *There is no one working at my firm qualified to become my successor*. For the male sole proprietors, the third most often cited response was *I believe I still have plenty of time to develop a succession plan*, even though 61% of those male sole proprietors choosing this response were age 55 and over.

TABLE 5. Top Three Reasons Why The Firm Does Not Have A Written Succession Plan			
Divided By Group			
Group	# 1	#2	#3
Sole Proprietors - Female	55% - Not Decided Which Method	50% - No One at the Firm Qualified	27% - Other Resources Available
Sole Proprietors – Male	54% - Not Decided Which Method	51% - No One at the Firm Qualified	22% - Believe Have Plenty of Time
1-2 Partners - Female	83% - No one at the Firm Qualified	67% - Not Decided Which Method	33% - Other Resources Available OR Too Busy (tie)
1-2 Partners - Male	48% - Not Decided Which Method	32% - No One at the Firm Qualified (tie)	28% - Other Resources Available
3–5 Partners - Female	25% - Not Decided Which Method (tie)	25% - Other Resources Available (tie)	25% - Other (tie)
3-5 Partners - Male	55% - Not Decided Which Method	45% - Not Ready to Think About Retirement	36% - Believe Have Plenty of Time
6-10 Partners - Female	N/A	N/A	N/A
6-10 Partners - Male	67% - Other Resources Available	33% - Not Decided Which Method OR No One at the Firm Qualified (tie)	33% - Firm has Insufficient Resources for Buyout OR Too Busy (tie)
>10 Partners - Female	N/A	N/A	N/A
>10 Partners - Male	100% - Other	N/A	N/A

The responses indicated that the partners at the smaller firms had similar concerns as the sole proprietors. Again, the top two reasons were *I have not decided what succession approach I*

want to take for my retirement and There is no one working at my firm qualified to become my successor. Similarly, *My retirement is not contingent upon a succession plan because I have other retirement resources available to me* was a frequent response.

For the male respondents with 3 – 5 partners, while *I have not decided what succession approach I want to take for my retirement* was the most frequent response at 55%, 45% of the respondents indicated *I am not ready to think about my retirement*. In addition, 36% indicated *I believe I still have plenty of time to develop a succession plan*. The only other group stating *I believe I still have plenty of time to develop a succession plan* were the male sole proprietors.

As the firms grow to 6 – 10 partners, 67% of the male respondents indicated *My retirement is not contingent upon a succession plan because I have other retirement resources available to me* as the reason for a lack of written succession plan. There were no females in this segment. Thirty-three percent of the respondents in the 6 – 10 partner group selected four common responses. The first two were the same as the previous groups, but this group also cited *I am too busy* and *My firm does not have the economic resources to support a buyout of my interest*. Only 2 respondents from firms with 10 or more partners did not have a written plan, with both citing other reasons for the lack of planning.

The frequency of the responses *I have not decided what succession approach I want to take for my retirement* and *There is no one working at my firm qualified to become my successor* indicate two potential areas of focus for educational programs developed by the CSCPA. First, CSCPA members may need more information about succession planning options so they can see what methods might be appropriate for them. Secondly, CSCPA members may need more information about how to identify and develop a potential successor. The large number of sole proprietors without a written succession plan may indicate a need for programs targeted specifically for the sole proprietor.

Key Issue Number Two: Member's Choice of Planning Methods

Of the 194 respondents, only 38 indicated they had a written succession plan in place. The overwhelming majority, 84%, indicated that they planned to transition the firm to someone within the existing firm. Only two of the respondents with plans in place were sole proprietors and both of the sole proprietors planned to sell the firm to an outside party. More than half of those with plans were from firms with 3 – 5 partners and included respondents of all ages. Figure 5 shows the breakdown of the choice of plans.

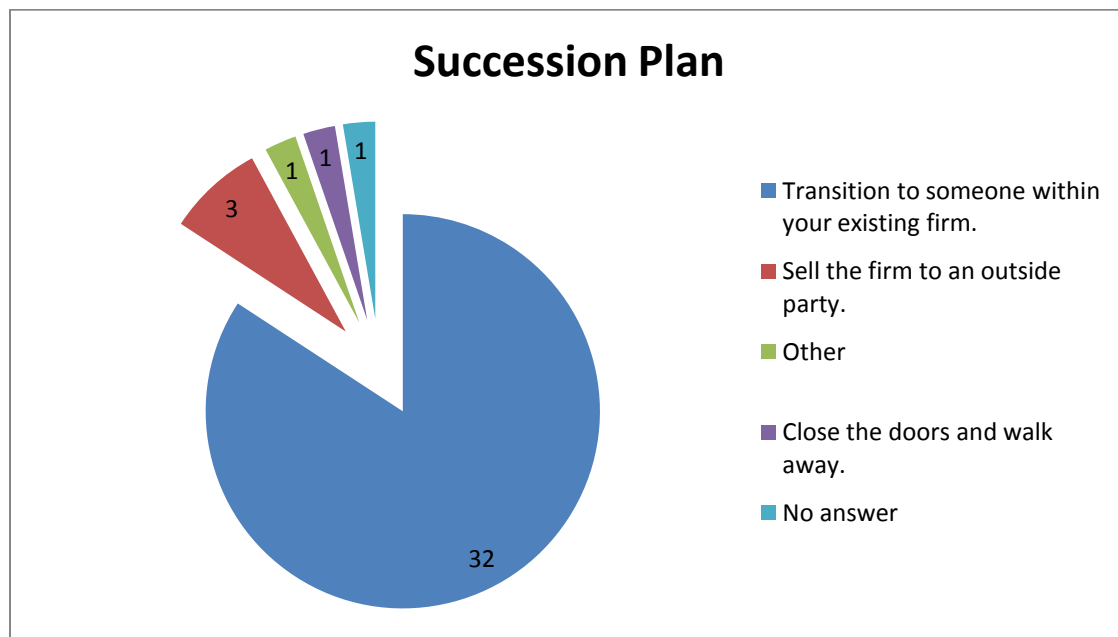


Figure 5.

Figure 6 depicts the breakdown of the 38 respondents with succession plans by size of firm and age of respondent. Twenty-eight of the 38 respondents were aged 50 and older, with 10 of the 28 in the 55 to 60 age range. This result is not surprising. Five of the 38 firm owners with succession plans were younger than age 45, and 4 of these respondents planned to transition to someone else in the firm. Eighteen of the 38 respondents with succession plans were from firms with 3 to 5 partners and represented all age groups. The 2 sole proprietors with succession plans were both aged 60 to 64.

Age and Firm Size of Respondents with Succession Plans

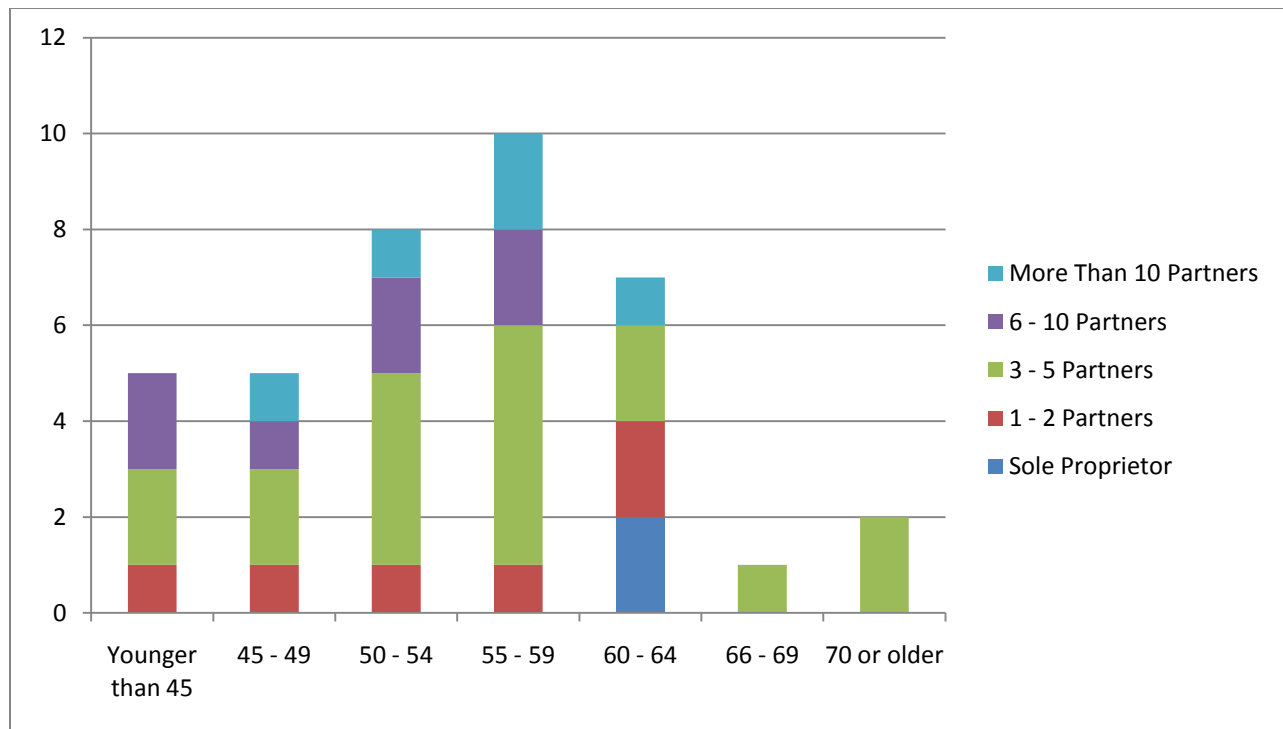
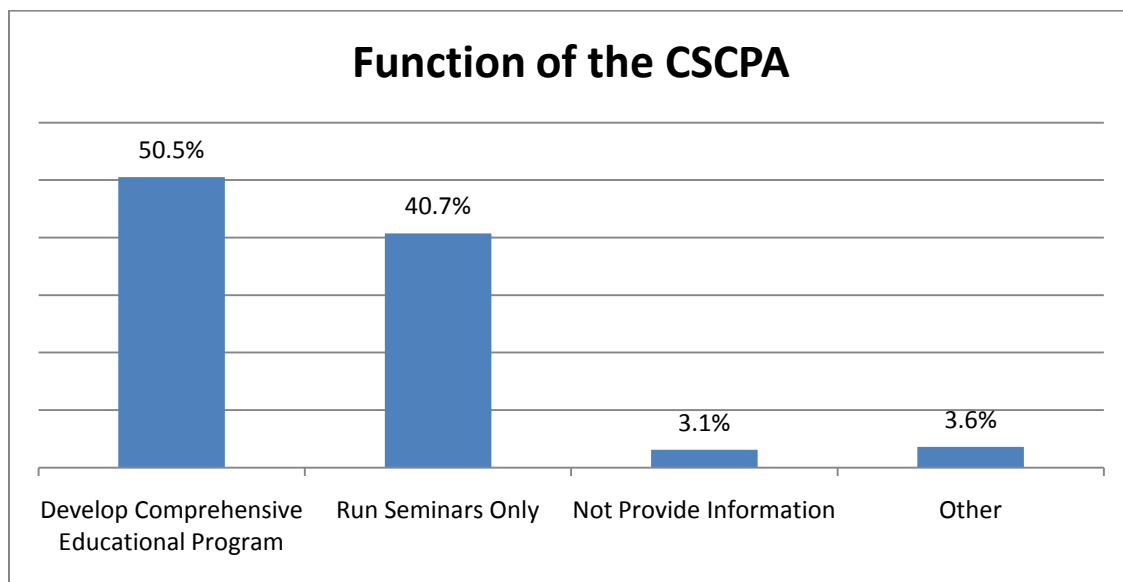


Figure 6.

Key Issue Number Three: The Function of the CSCPA In Terms of Succession Planning

The primary purpose of the survey was to identify what function, if any, state CPA societies can have in assisting publicly practicing members in planning for firm succession. The secondary purpose was to determine what types of information and services related to firm succession, if any, do publicly practicing members of a state CPA society expect the society to provide to the membership. Eighty-six percent of the respondents indicated that they relied on the CSCPA for continuing professional education. One hundred and seventy-seven respondents or 91% indicated either that the CSCPA *should develop comprehensive educational programs* or *limit its involvement to running seminars that deal with succession education*. The overwhelming positive response indicates that the respondents look to the CSCPA to provide assistance in planning for firm succession. Figure 7 outlines the responses.



Note: 2.1% of respondents did not select any option.

Figure 7.

Upon further examination, it was noted that a fair percentage (20%) of respondents supporting the CSCPA’s involvement already have written succession plans. A fortuitous opportunity has appeared as a result. Who better to aid firms wrestling with succession issues than those firms with a written plan? A platform involving an exchange of ideas, information, and best practices from those who have written plans to those members just beginning the process can be an important aspect of the CSCPA website. Table 6 shows the breakdown of responses by those with and without a plan.

TABLE 6. Function of CSCPA Plan or No Plan	No Plan	Plan
Should Develop Comprehensive Educational Program	79	19
Run Seminars Only	63	16
	80%	20%

Sole proprietors were the largest group of respondents supporting the CSCPA’s involvement in the succession planning process. As noted previously in the study, sole proprietors appear ill prepared and need more information about succession planning options. As firm size increased, the responses in support of the CSCPA’s involvement dropped off considerably to less than 10%. A small group, evenly distributed among firm size, felt that the CSCPA *should not provide information regarding succession issues*.

A follow up question gave respondents an opportunity to select the types of information they believed would be helpful with succession planning issues. Respondents were encouraged to check all that applied. The top three answers provide some insight into how to develop the CSCPA website and other educational programming to meet the members’ needs. The top choice with 152 responses was *articles on various succession issues*. Secondly, 134 respondents selected *list of frequently asked questions and answers*. The third choice with 125 responses was *planning suggestions and timeline*. Respondents also designated *continuing education seminars on the topic of succession planning* as well as *classified ads – marketplace for buyers and sellers*

as useful resources in their succession planning process. Figure 8 reports the full range of responses.

Information CPA Firm Owners Want From the CSCPA

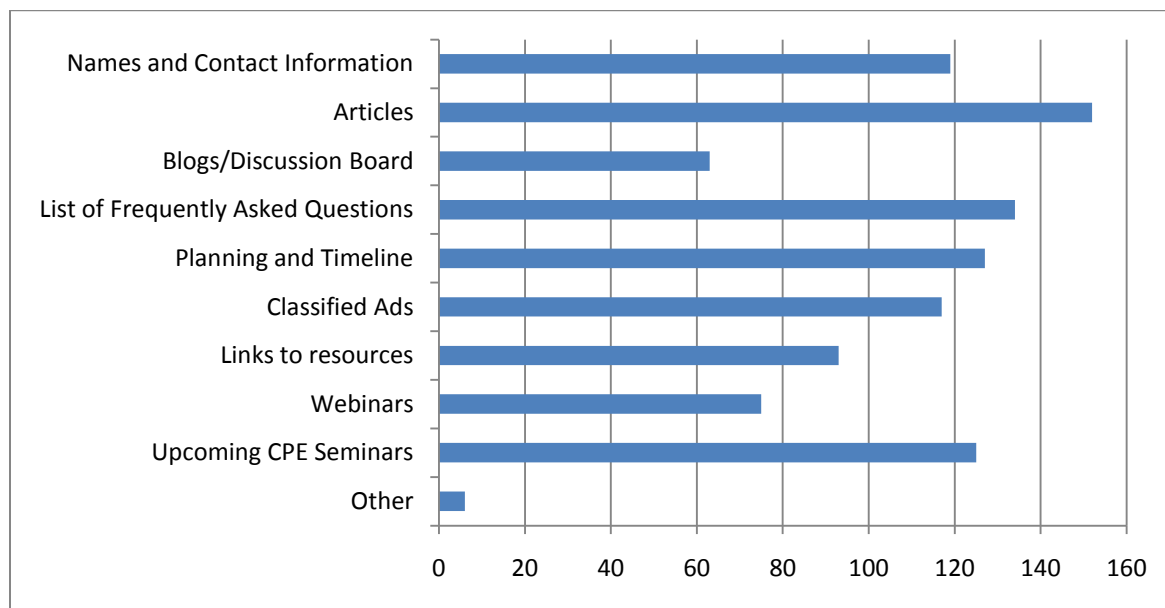


Figure 8.

The outcome provides insight of the current interest of members and gives the CSCPA a starting point in the development of the website. Succession planning is an evolving process. As members' circumstances change their succession plans will change. The CSCPA website should be versatile in its offerings to accommodate multiple perspectives and provide opportunities for members to network with the CSCPA and other members on this vital issue.

Conclusion

The survey aimed to identify what function state CPA societies can have in assisting publicly practicing members in planning for firm succession as well as what types of information and services related to firm succession publicly practicing members of a state CPA society expect the society to provide to the membership. The results indicated that succession planning is problematic for many firm owners, especially sole proprietors and those from smaller firms. In addition, the respondents indicated that the CSCPA has a role in providing seminars and other programming related to succession planning.

The overall results of this survey provide useful insight to assist the CSCPA in development of their website in the area of succession planning. For sole proprietors and multi-owner firms lacking a written succession plan, the website can be a vital source of information as they begin the necessary step to ensure a smooth and fiscally sound transition plan. For the CSCPA, it is an opportunity to reflect on the expressed needs of their members and direct their attention to these specific needs as they move forward in the website development. Results of this survey should serve as an impetus for further research into state societies and their function in assisting members in succession planning issues.

Researchers

If you have any questions regarding this study, please feel free to contact the researchers:

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