

# UNPLANNED SUCCESSION

## MODULE 2: GROWTH AND SUCCESSION GUIDE

### INTRODUCTION

Who will buy my practice is a question that is increasingly being asked. With the average age of public practitioners now well over 50, an increasing number are contemplating how they will succession manage their practice. For many the focus is on the capital value of the practice and how they can extract this capital value to assist in their retirement planning. Succession though, isn't always about retirement. There are a whole range of events that can be a catalyst to the sale of a practice.

Currently, there are approximately 9,000 public practice firms in Australia, and of these 83% are represented by sole practitioners and two partner firms. You have a large number of small practices delivering similar services to a similar client base. These firms are typical of small business in Australia. CPA Australia public practice statistics identify that approximately 42% of members may have a succession event for their practice within the next five years.

Where does this place public practitioners looking to plan and implement their succession?

Given the expectation of an increasing number of firms and fee parcels coming on to the market, without question we will see buyers gravitate toward value. A clear message is that we should all be planning for the ultimate sale of our firm – irrespective of whether we expect to be in practice for two or 22 years. Every firm should be developed with view to the ongoing succession and ultimate sale of the business. The great thing about doing this is that you build a strong and profitable business from day one. And when the time comes for you to move on, then you have an asset that is attractive in the market and one for which there should be strong demand.

This guide has been designed to provide you with some of the practical tools that will assist you to plan and position your practice so that it is attractive in the marketplace and to manage your succession. This encompasses managing unplanned succession events. It is particularly focused on small and medium size practices, although the fundamentals hold true for all.

### UNPLANNED SUCCESSION

You will not always be able to manage and control the succession process.

With the ageing of the public practitioner population we will see cases where practitioners either pass away prior to retirement or suffer some health event that precludes them from continuing in practice.

Irrespective of the age of the practitioner this issue should be considered. Unexpected events can impact any of us. Health issues or accidents are not age-based.

With larger practices and where there are multiple partners this issue can often be effectively managed internally. An issue of this type will cause disruption in any practice, however, firms with more than three partners can usually manage such an event.

The most at risk practice is the sole practitioner, where management of the firm rests solely with you.

As part of your risk management plan you should consider the ongoing management and disposition of your practice in the event of something unforeseen occurring. Doing this will:

- best protect your clients' interests
- protect staff and other stakeholder interests
- preserve the value of your practice and your interest in the practice.

These objectives can be best achieved by having an unplanned succession plan in place. This could include:

- clear terms in your will about what should happen to the practice in the event of your death or permanent incapacity
- powers of attorney in place so that in the event of your incapacity there is someone who is authorised to make decisions on behalf of the practice
- for partnerships, have buy/sell agreement provisions in your shareholder's agreement or a separate buy/sell agreement
- for sole practitioners, it is a good idea to have an arrangement in place with another practitioner who would be able to step in and manage the practice in the event of something happening to you
- have a practice overview document completed that provides a clear summary of the practice insurance.

## LEGAL DOCUMENTATION

Current wills, power of attorney, partnership agreements and buy/sell agreements are all documents that most of us would agree should be in place and be a part of the permanent succession records of the practice. They are your opportunity to have your say and express your wishes in relation to the practice in the event that you do not have capacity at a future point in time. Unfortunately, these documents are not always in place and current. The result is that your estate, your family members and your partners are trying to resolve a range of business issues. And sometimes the ultimate outcome is not what you would have wanted.

Generally, when these documents are not in place it is not because the practitioner did not want to complete them or did not see them as being valuable. More likely it was one of those things on the to do list or one where there were some more contentious issues that were unresolved. Irrespective of the reason the resultant problems will be the same. In some cases, it will result in litigation between the parties and a lot of time and frustration to resolve.

If you are serious about succession planning, then you should ensure that these documents are in place and you have worked through the various scenarios and the most appropriate way to manage them. Legal advice here will be important. Ideally, you need a lawyer who is experienced in this area and who you are comfortable to talk through your position with.

## PRACTICE SUPPORT

In the event of death or a major incapacity your practice will have ongoing needs. It does not stop because you have. There are continuing issues to be dealt with. Larger partnership can generally manage this from within the practice capacity, however, sole practitioners and very small partnerships may not have this automatic support

and capacity. If this is you then it makes sense to have a plan in place in the event of something unexpected occurring.

Normally that plan would include another practitioner providing a support service to the practice while your longer-term plans for the practice are being dealt with. The level of support required will vary depending on the size of your practice, the experience and qualifications of your staff and the service range being provided to your clients. It is a good idea, as a part of your practice risk management process, to think through this and determine what would be appropriate to your firm. Once you have formalised on the likely needs of the practice then it makes sense to enter into a contingent arrangement with a practitioner who is willing to take on the responsibility and who you are comfortable with as a possible caretaker for your practice. If you enter into such a contingent engagement make sure that the practitioners details are provided to a senior member of your staff, your next of kin and your executor.

The follow on to this is to complete a Practice Review document. This document simply provides an overview of your practice and is designed to assist someone coming in as a caretaker to the practice to have ready access to basic information about the practice. Ideally, this document should be completed with the practitioner who has agreed to provide the caretaker service.

Download a [Practice review checklist](#).

## INSURANCE

As part of your succession planning you should consider any insurance requirements that are appropriate to you. Death or incapacity have financial consequences and ideally you want to avoid additional financial pressure on you, your estate and the practice. Requirements for insurance can vary substantially based on individual situations and there is no one size fits all solution to this. Rather it should be a matter that is considered with appropriate action taken. Insurances to be considered could include:

- death or key person cover
- trauma insurance
- critical event cover
- sickness and disability cover.

## FURTHER RESOURCES

- [Succession options \(PDF\)](#)
- [Valuation and pricing \(PDF\)](#)
- [Succession implementation \(PDF\)](#)
- [Succession planning](#)
- [Roadmap to practice growth and succession \(PDF\)](#)
- [Growing your business](#)

**About the author**

Greg Hayes, Director, Hayes Knight (NSW) Pty Ltd, has broad experience and knowledge in the area of public practice succession. With over 20 years experience as a public practitioner, Greg's focus is on business consulting and taxation. He specializes in strategic planning techniques and is well known in the areas of practice management and business development, having been an active commentator in this area for over 15 years.

**Disclaimer**

CPA Australia and the author have used reasonable care and skill in compiling the content of this material. However, CPA Australia makes no warranty as to the accuracy or completeness of any information in these materials. The above material is only general in nature and not intended to be specific to the reader's circumstances. You should not act solely on the basis of the information contained in these materials as parts may be generalised and may apply differently to different people and circumstances. Further, as laws change frequently, all practitioners, readers, viewers and users are advised to undertake their own research or to seek professional advice to keep abreast of any reforms and developments in the law. To the extent permitted by applicable law, CPA Australia, its employees, agents and consultants exclude all liability for any loss or damage claims and expenses including but not limited to legal costs, indirect special or consequential loss or damage (including but not limited to, negligence) arising out of the information in the materials. Where any law prohibits the exclusion of such liability, CPA Australia limits its liability to the resupply of the information.

Copyright © CPA Australia Ltd ("CPA Australia") (ABN 64 008 392 452) 2017. All rights reserved. Without limiting the rights under copyright reserved above, no part of these notes may be reproduced or utilised in any form or by any means, electronic or mechanical, including photocopying, recording, or by information storage or retrieval system, without prior written permission from CPA Australia.

December 2017