

Meeting: SMP Advisory Group
Meeting Location: Virtual Meeting
Meeting Date: July 24, 2023
From: Harpal Singh

Agenda Item 2.1

For:
☐ Approval
☒ Discussion
☐ Information

Succession Planning, Mergers and Acquisitions in SMPs

Objectives of Agenda Item

1. To facilitate a breakout discussion (in conjunction with session from Bill Pirollo and Carl Peterson) to explore succession planning in the current era of SMPs offering broader services to clients and increasing reliance on technology both within SMPs themselves and their clients. This will ultimately result in a Gateway article as thought leadership and a potential podcast.

Background

2. Succession planning is an area that has long posed a challenge for SMPs due to many factors, with attracting and retaining key staff key historic areas of focus. Succession planning has previously concentrated on the role of the managing partner of a practice. In the current environment many SMPs may have broader succession challenges, as the growth of the breadth of services offered could create other key positions that are essential to plan a future for. This will become broader still in future as the role of technology becomes increasingly prominent.
3. The demographics in many jurisdictions mean the impact of the ageing population and workforce is felt within SMPs, and in many cases internal succession is problematic so broader considerations around exit planning may be needed.
4. There has also been a growing trend of Private Equity interest in acquiring SMPs and even larger practices in some jurisdictions like the USA and UK. These acquisitions tend to be followed by the introduction of new corporate management practices to improve performance, and a question can be raised as to whether it is possible to adopt such management approaches whilst retaining the Partner model of ownership to modernize SMPs.
5. Mergers and acquisitions often come with a number of practical challenges that SMPs may find difficult to navigate. For example, harmonization of differing salary levels, the amount of fees charged and integrating different IT structures and similar considerations often need to be made. SMPs may need support in navigating such challenges.
6. It has been several years since the topic of succession planning and related considerations of mergers and acquisitions in SMPs have been discussed by the SMPAG. Previous work in this area has resulted in outputs including:
 - Gateway Articles:
 - [Encouraging Successful Exit Strategies—Passing the Baton](#)
 - [Collaborate to Compete](#)

- Eight-piece Video Series:
 - [When Should You and Your Practice Start to Plan Your Succession?](#)
 - [Common Risks for Accounting Mergers and Acquisitions](#)
 - [Accountancy Mergers & Acquisitions: Timing and Market Conditions](#)
 - [Preparing for a Merger or Acquisition: Consider Any Changes Carefully](#)
 - [Considering a Merger or Acquisition? What Problem Are You Looking to Solve?](#)
 - [Valuing an Accounting Firm](#)
 - [Choosing Your Successor Firm](#)
 - [Buyer and Seller Perspectives on Small- and Medium-sized Practices](#)
- 7. The [Practice Transformation Hub](#) also features external resources on succession planning, which is regularly updated.
- 8. The [Guide to Practice Management for SMPs](#) includes a module (8) on Succession Planning. This provides comprehensive guidance in relation to succession, but awareness of its existence could be improved.

The module provides detailed guidance and checklists in several useful areas:

- Understanding your firm and its attractiveness
- Planning to get your firm succession-ready
- Developing a succession plan
- Determining the most appropriate succession option
- Valuation methodologies and methods
- Thinking about shared ownership
- Partnerships, consolidations, mergers and acquisitions
- Sale, fee parcel or progressive sell-downs
- Developing internal succession plans
- Admission of new partners
- Buyouts by existing partners
- Exit considerations
- Taxation, lifestyle, constraints of trade and compliance considerations

Regional Insights and Sharing Thoughts on Recent Developments

- 9. The AICPA regularly showcase speakers on this topic, and Bill Pirolli, who has just stepped down as Chairman of the AICPA will deliver a structured question and answer session alongside Carl Peterson from AICPA/CIMA. The session will cover succession planning, merger and acquisition trends from

a US perspective and will be in an exploratory interview format that will also allow some time for Q&A from attendees.

10. Carl is a technical adviser on SMPAG and serves as the voice of SMPs within the AICPA on standard setting, regulatory and small business issues. In this capacity he meets regularly with firms and has strong knowledge of succession challenges. Bill has recent personal experience of an effective succession plan and exit and has extensive knowledge of what SMPs could do to make succession and exits smoother and extract maximum value from practices.
11. The SMPAG provides a vital mechanism to gain insights on this important area, and thoughts from the presentation and subsequent discussion can be collated and developed into thought leadership for global SMPs. Depending on the audio quality, the content could also be repackaged into an episode of the [Fast Future with IFAC Podcast Series](#).

Breakout discussion session

12. The breakout format will be as follows:
 - SMPAG members will be organized into 4 groups to discuss 3 specific questions listed below for approximately 55 minutes.
 - Each group will have access to an online Jamboard that will have one tab for each of the 4 questions posed to the group. A link to the Jamboard will be sent out with the agenda materials so members can test the technology prior to these breakout sessions. If you have any issues, please contact Jazmin at JazminJackson@ifac.org.
 - Members are welcome to gather some of their thoughts in Jamboard prior to the meeting.
 - Please note that Jamboard works best when using a laptop or desktop. It is more challenging to see and type on a phone or tablet.
 - A recording will also be taken in case the Jamboard does not collect all the discussion and feedback. Group leaders will be responsible for recording their respective sessions. Jazmin will circulate instructions in advance of the meeting.
 - Key comments and feedback will be shared for 30 minutes with the entire group (approximately 5 minutes will be allocated for each group leader to report back).
 - Bill Pirolli will be present during the breakout sessions and along with IFAC staff may enter into the breakout rooms to observe, facilitate or answer any questions.
13. The questions that each group will discuss are listed below:
 - What are the most common practice structures in your jurisdiction?
 - Are there any key functions in your practice that are evolving/growing that would need to be planned for that did not exist in previous succession planning, will these new key functions continue and are there future functions to consider?
 - What learning can the traditional partner-led model take from recent developments in succession planning, acquisitions and mergers (eg the entry of Private Equity actors into this space)?

- What practical issues might a SMP in the process of exit planning encounter, and how could these be resolved?

Additional Material(s) Presented

None

Action Requested

14. The SMPAG is asked to provide their thoughts and regional perspectives through discussing the four breakout questions in order to develop a shared insight on current challenges in succession planning for SMPs. In conjunction with the structured Q&A session with Bill and Carl and, the insights gained can then be used to help develop a Gateway article.