

Structure, Succession, & Mergers: A Look at CPA Firm Trends

One of the hot trends in CPA firm management in recent times has been alterations in operating structure. Succession planning and strategies for mergers and alliances with other CPA firms are areas where CPA firms are innovating. AOMAR's 2008 CPA Firm Practice Management Survey asked respondents for an update on the firms' progress in these key aspects of a successful practice.

Operating structure. The corporate model has gained in popularity among CPA firms, evidenced by the 30.9% of this year's respondents who say their firm has a chief executive officer or chief operating officer and board of directors leadership structure (see Table 1).

Almost as many (27.8%) still have a traditional structure in which the managing partner functions as CEO but makes major decisions alone and in which there is no board.

The middle-of-the-road option, with an executive committee managing the firm and the managing partner running administrative operations, is used by 23.7% of the respondents. A few firms are still pure entrepreneurship in which partners make individual decisions about their practices, share office space and support staff, and operate in a quasi-independent fashion.

Other operating structures reported include:

- managing partner heads the management committee where most decisions are made (a strong MP model);
- managing partner has controlling interest, but other equity partners have considerable sway, and a chief financial officer handles administrative functions;
- managing partner runs the firm with executive committee oversight;
- managing partner makes small decisions, but the partners together determine major decisions; and
- partners jointly govern the firm.

Succession plan. CPA firms have finally begun making progress in succession planning. More than a quarter (26.7%) have a formal, written plan that is part of the firm’s partnership agreement or incorporation documents (see Table 2), which we believe is the best way to address succession.

A formal, written plan is in place at 3% of the responding firms, and another 6.9% have a formal, written plan that is being revised this year. At 14.9% of the firms, an informal plan is being developed into a formal, written plan this year.

At firms of another 3% of respondents, there is a plan to replace only the managing partner. At other firms, there is work to be done: 21.8% have no informal or formal plan yet, but owners are working on it this year. And 23.8% have no plan, and there is no plan yet to develop one.

Mergers and alliances. Although there is still a lot of talk in the profession about mergers, not many of the respondents to this year’s survey foresee a merger in the next 12 months, only 9.4% of survey respondents to be exact (see Table 3).

Table 1. Operating Structure of CPA Firms

CEO/COO and board of directors (corporate) structure.....	30.9%
Managing partner functions as CEO; no board-type structure, and MP makes major decisions alone.....	27.8
Executive committee runs firm; MP in charge of purely administrative matters.....	23.7
Entrepreneurial operations: Partners make individual decisions about their practices, share office space and support staff, and otherwise operate in a quasi-independent fashion.	5.2
Other:	12.4
<ul style="list-style-type: none"> ■ Sole proprietor: All partners manage and work together. ■ Managing partner heads management committee where majority of decisions are made; the committee meets monthly; full partners meet quarterly. MP functions as CEO; there is a board structure where MP consults with partners on decisions. ■ MP functions as CEO; there is a board structure where MP consults with partners on decisions. ■ MP has controlling interest; other equity partners have considerable sway. CFO for administrative functions; no board of directors. ■ Partners govern firm together, share practice and support staff. ■ Managing Partner runs firm, with executive committee oversight. ■ MP makes small decisions with other partners, etc.; bimonthly meetings. ■ True partnership, with manager and senior partner deciding issues. 	

(Source: AOMAR’s 2008 CPA Firm Practice Management Survey)

For those that do plan a merger, the reasons to do so include assistance with succession and retirement issues (cited by 34.4%); adding new niches (31.3%); and expanding into new geographic areas (28.1%). Other reasons included expanding existing niches, expanding client bases, and obtaining additional staff.

Alliances and joint ventures seem to be more “where the action is” than mergers right now: 19.2% of survey respondents say they have formed alliances and joint ventures with other CPA firms. And 25.3% are allied with both other CPA firms and other professional services firms such as law firms. An additional 14.1% are not yet involved in alliances or joint ventures but plan to explore such options in the coming year.

The most popular alliances cited by respondents are in the areas of consulting work (33.0%), audit engagements (29.5%), tax engagements (18.8%), Sarbanes-Oxley engagements (8.9%), and review and compilation work (9.8%). Other areas cited by respondents include software support, securities, investments, IT consulting, international consulting, and financial planning and estate law.

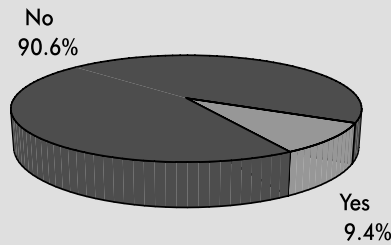
Table 2. Succession Plan Status

There is a formal, written plan that is part of the firm’s partnership agreement/incorporation documents.	26.7%
There is a formal, written plan.	3.0
There is a formal, written plan that is being revised this year.	6.9
There is an informal plan that is being developed into a formal, written plan this year.	14.9
There is a plan for the replacement of only the managing partner.	3.0
No informal or formal, written plan exists now, but the owners are working on one this year.....	21.8
No informal or formal, written plan exists, and there is no plan to develop one.	23.8

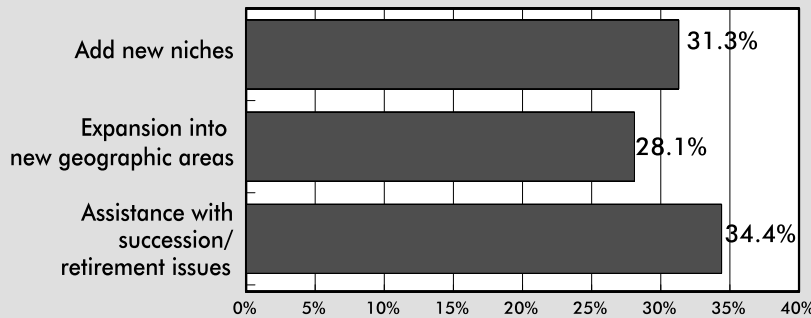
(Source: AOMAR’s 2008 CPA Firm Practice Management Survey)

Table 3. Mergers & Alliances

Do you anticipate a merger or sale of your firm in the next 12 months?



Merger goals:



Other responses:

- Expansion of existing niches
- Broader client base for niche services
- Additional staff

Expand client base:

The statement that best describes your firm’s involvement in alliances and joint ventures with other services firms:

Alliances/joint ventures with other CPA firms.....	19.2%
Alliances/joint ventures with other CPA firms and other professional services firms such as law firms.....	25.3
No alliances/joint ventures yet, but the firm plans to explore these options this year.....	14.1
No alliances/joint ventures and none is planned.....	41.4

Types of alliance/joint venture engagements:

Sarbanes-Oxley engagements.....	8.9%
Audit engagements.....	29.5
Tax engagements.....	18.8
Consulting work.....	33.0
Review/compilation.....	9.8

Other types of alliance engagements:

- Financial planning & estate law
- Software support
- Securities
- Investments
- IT consulting
- Health-care services, cost segregation
- Technology services
- International consultation

(Source: AOMAR’s 2008 CPA Firm Practice Management Survey)