Firm Succession Planning

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What is the biggest risk to your practice?

- loss of key clients?
- economic downturn?
- recruitment challenges?
- staff turnover?

unplanned succession.

Planned VS Unplanned Succession

The current succession environment

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.

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Unplanned succession

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.

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Planned succession

You only have to look at some key statistics to appreciate the likely impact.

In recent public practice surveys respondents indicated that:

- 25% had at least one partner who was planning to retire within 5 years
- 19% indicated they planned to sell their practice in the next 5 years
- 19% were looking to merge with another firm
- 68% rated retirement or resignation of a partner as the highest risk position for the practice

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Know your options

One of the key questions that your succession plan will answer is: What happens to my business when I exit?

Succession planning should be flexible. Your preferred scenario may not come to fruition, so you should consider contingency options too.

- sale of practice
- sale of fee parcel
- progressive sell down to an external buyer
- merger
- acquisition by existing partner
- internal succession

Benefits of succession planning

Succession planning offers significant advantages:

- **revenue:** You can put steps in place to maximise the value of your practice It requires planning to build and grow your parcel of fees into a saleable asset
- **greater certainty:** You are giving your family and colleagues clarity and peace of mind about the future.
- **tax efficiency:** Considering tax implications of insurances and payouts now will help you achieve efficiencies later.
- **business hygiene:** You arc prompting yourself to consider issues that many small business owners struggle to find time to focus on, such as strategy, profitability, client mix etc.
- **rational thinking:** By conducting contingency planning now - with a clear head - you can make considered and calculated decisions, just in case the worst happens in the future.
- **staff retention:** Some forms of succession include incentives lor high-performing employees (such as a path to partnership) which makes it more likely they will remain working at your practice.
- **investment:** You can ensure bank and guarantor issues are appropriately managed.
- **continuity:** You are paving the way for a smooth change of ownership.

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Planning points

- **grasping the departing partner's client reach and what other parts of the firm the partner touches** — Having a good picture of the transitioning partner's big revenue-producing relationships and any internal and industry commitments can create potential growth opportunities for remaining high-potential talent within the firm
- **knowing the firm's rising stars** — identifying the well-respected candidates who are ready to take over client relationships within a particular practice
- **creating training and development plans for successors** — Best address any current leadership, skill, or knowledge gaps among the candidates
- **matching clients in the selection of the successor** — Personality fit is key. Retiring partner not always the best judge.

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Case Study – Prosperity Advisers

Prosperity Background - 35th year of practice

1989	
Revenue	$100k
Staff	1
Partners	2
Offices	1

2023	
Revenue	$25M
Staff	170 (120 Australia / 50 Philippines)
Partners	12
Offices	4

- ✓ Building culture from beginning
- ✓ Strong organic growth
- ✓ A goodwill practice

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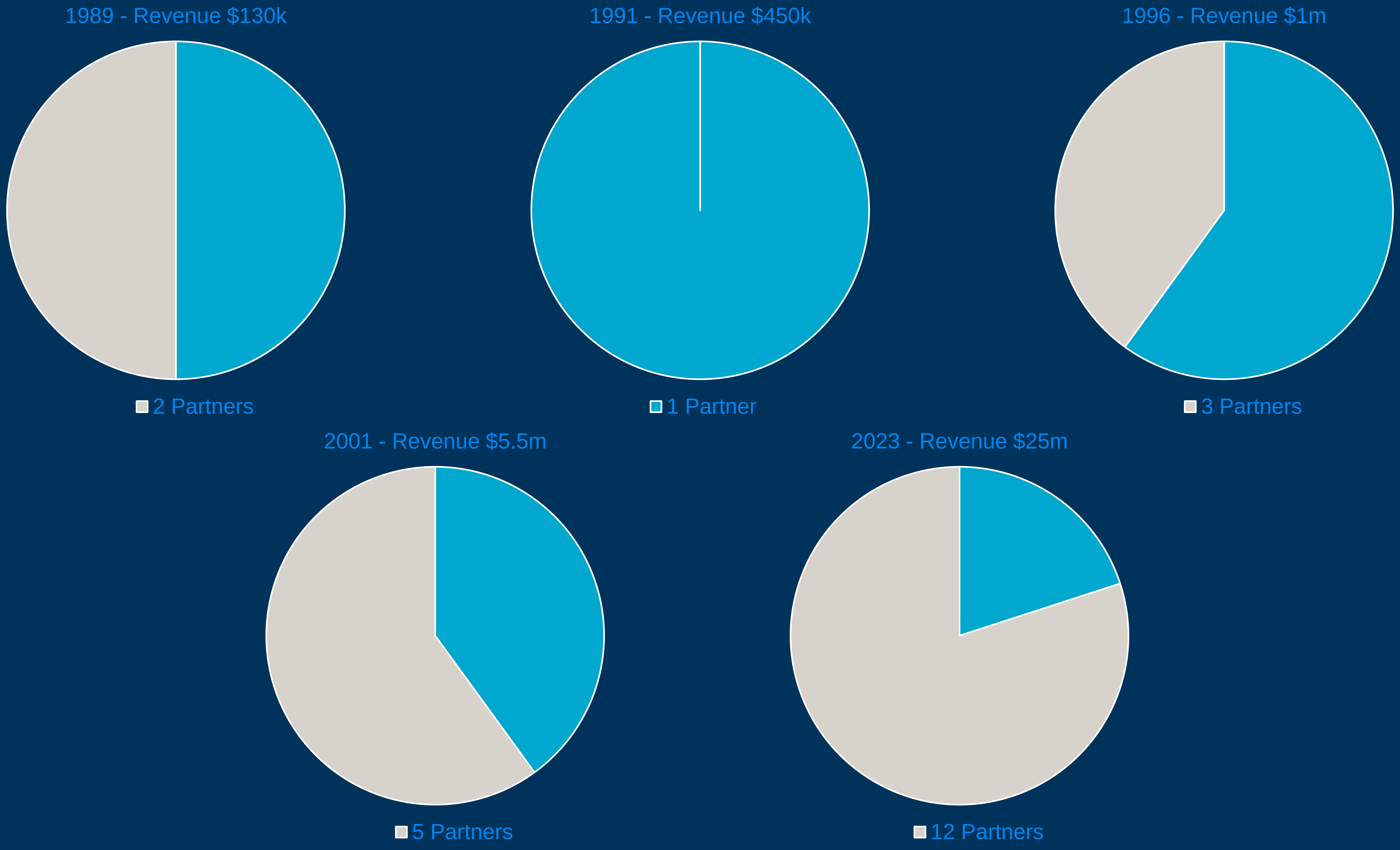
Equity transformation over 35 years



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Succession issues navigated

- sudden death of co-founder partner
- total and permanent disablement of Audit Partner
- cancer scare
- six partner transitions in 3 years

Prosperity succession planning initiatives

- annual declaration of intention
- path to Partner program
- Strengthen our bench
- keyman insurance
- at least two of everything

Case Study – Lo Hock Ling & Co.

1983
Humble Beginnings

Started business as a 2 partner firm with 28 supportive staff

1985
Internationalisation

The Firm started to join international networks and associations and adopted growth strategies

1990s
Diversification

More client services through JV with alliances or develop internally. E.g. IT services and consulting, business outsourcing

21st Century
Admission of new and younger partners
Technology & Digitalisation

Develop the practice with more digitalization initiatives to attract younger generation professionals

2023
Now Lo Hock Ling & Co. is among top 17 firms in Singapore

Case Study – Lo Hock Ling & Co

Growth Over the Years

- 1990s admitted a young partner
- 2000s admitted 2 more younger partners
- Currently we have partners with age ranging from age 30s to 40s and 50s. the founding partner and second-generation partners are in their 60s.
- Gradual transition of management and equity is transparent to clients

What Do We Look For in a Young Professional

- Passion for the profession
- Technically strong and diverse skills
- Some young professionals who are technically strong may not have good business acumen – training is needed to groom them
- Firm’s culture
  - Employee engagement to attract and develop talent.
  - Understanding our clients
- Resilience to hard work with acceptable level of work life integration
- Inter-personal skills to manage a younger professional team

Case Study – Lo Hock Ling & Co

Exit Plans Consideration

Merge with another firm

- Face Uncertainties
- My younger partners may lose their seniority and control after merger
- Disruption of firm culture
- Risk of losing clients and staff when firm changes image

Acquisition by Existing Partners

- Handhold younger partners progressively for management transition
- Transparent to clients for firm's continuity
- Minimise disruption to firm's image
- Ability to manage staff more effectively
- Continued strategic involvement to diversify the firm's services and grow the firm

Q&A