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Feb. 24, 2015

Here are 6 concepts for CPA firms to take into account for deciding how to structure a new partner coming into the firm:

Should this person BE a partner? Too many firms shoot from the hip in determining who should become a partner, essentially re-defining promotion criteria every time they discuss the subject. Don't you owe it to yourselves to spend one paltry hour formalizing, in writing, critically important criteria to consider in making this

Answers to the following questions determine "leadership skills": Will clients delegated to them be OK with calling the new partner first instead of the origination partner? Does the new partner have the credibility with both partners and staff to be accepted as a leader, leading by example? Can the new partner help drive the firm? Will the new partner be a difference-maker at partner meetings or a bump on a log? Can the new partner resolve conflicts?

At some firms, non-equity partners can remain so for life. At others, the expectation is that non-equity partners will devote the time spent in this position to (a) acquire the skills necessary to become an equity partner and (b) decide if they are truly cut out to be a partner.

Eliminate the term "ownership percentage" from your vocabulary. The term "ownership percentage" wreaks havoc at firms in three major ways: (1) *Determining the buy-in amount by multiplying a new partner's ownership percentage times the value of the firm*. The problem is: how is the ownership percentage of the new partner determined? There is no rational way to do this. (2) *Allocating income and computing buyout payments based on ownership percentage*. These approaches are unfair to the partners because their relative ownership percentages usually have little correlation to their relative performance. (3) *Voting based on ownership percentage*, which essentially disenfranchises new partners because their vote is so small compared to partners with much higher ownership percentages.

Best way to deal with all of this: Don't use ownership percentage to determine anything.

Large buy-ins are out of vogue. Years ago a new partner's buy-in was determined by multiplying a newly-awarded, arbitrarily-decided ownership percentage times the value of the firm (capital PLUS goodwill). This approach results in a buy-in amount of hundreds of thousands of dollars at most firms, an amount that young partners

The value of a CPA firm should be its accrual basis capital PLUS goodwill. This value should not be “given away.” Bringing someone in as an owner of a profitable, viable business, for little or no buy-in, makes no sense.

New partner compensation should be based primarily on contribution to the firm’s growth, profitability and success each year, relative to the existing partners. A CPA firm operates differently than many other organizations in this respect: The value of the firm, today and tomorrow, as well as the profitability of the firm, today and tomorrow, is linked strongly and directly with each partner’s efforts to maintain and build the firm every year.

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