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MERGERS — MYSTIQUE, MYOPIA OR MISSED OPPORTUNITY

mystique /mis-'tek/ *n:* an aura of mystery surrounding a person, activity, etc.
myopia /mi-'o-pe-ə/ *n:* **1a:** an abnormal eye condition . . . **b:** near sightedness; **2:** lack of foresight.

In conjunction with a presentation on mergers at the AICPA MAP conference held last year in Cambridge, Massachusetts, I formulated a questionnaire which was handed out to the (approximately 225) attendees. The idea was to find out why firms merge and the type of information sought by merger partners. The results of this survey were not only informative but in many instances, surprising.

For example, the answers to one of the questions showed that continuing professional education is taking on new significance in today's climate—three out of four respondents indicated that this subject entered into their merger discussions. And, nearly all practice units talked about the quality of work although not all examined work papers. (I wonder on what basis the quality determination is made, in some cases.) The responses showed that geographic location is a primary consideration but, apparently, recruiting policies are not looked upon as a critical factor.

In order to determine what part firm size plays in attitudes and considerations toward mergers, I placed the respondents in the following categories:

- A Over $1,000,000 in gross billing
- B $500,000 to $1,000,000 in gross billing
- C $250,000 to $500,000 in gross billing
- D Under $250,000 in gross billing.

The responses to the questions varied in number, the biggest response to a single question being 74 with the average probably between 45 and 50. With these qualifications in mind, I will present some of the questions and answers (in italics) together with my observations.

Have you ever merged?	*A*	*B*	*C*	*D*
Yes	*17*	*8*	*2*	*1*
No	*9*	*19*	*9*	*9*

If so, how many times?	*A*	*B*	*C*	*D*
once	*9*	*6*	*1*	*1*
twice	*6*	*2*	*0*	*0*
three times	*1*	*0*	*0*	*0*

It appears that a number of bigger firms reached their objective by merging—up to a point. Then, they grew from within.

Have you ever demerged?	*A*	*B*	*C*	*D*
Yes	*4*	*0*	*2*	*0*
No	*20*	*25*	*8*	*9*

All marriages are not made in heaven. But, the fact that a merger doesn't work the first time does not mean it won't ever work. Many reasons given for the failure of a merger centered on personality conflicts among partners, differences in approaches to practice management or the desire of one person to practice on his own. These are points that should have been thoroughly examined prior to the merger.

What was the motivation for merging? (By priority)

Group A

(1) Geographic location, growth and economic advantages, better utilization of a firm's specialty and personnel skills, prevention of large client loss, acquisition of volume and staff.

(2) To acquire additional or younger partners, to increase technical support or a firm's profitability.

(3) For prestige or security, to spread overhead or eliminate travel, to get good people, to add to client base or increase client service.

Group B

(1) Larger fee base, growth, new market area, improvement of technical competence, providing better service to clients.

(2) To broaden areas of expertise, to pool resources, reduce overhead and improve staff utilization.

What's Inside . . .

(3) Growth, to expand services, departmentalize, obtain broader client base and effect cost savings.

Group C

(1) Growth, to increase specialization and acquire personnel.

(2) Greater profit and specialization to permit room for staff promotion.

(3) To obtain more knowledge and increase training capability, spread overhead and nonchargeable costs over a bigger practice.

Group D

(1) Growth, to increase the size of a practice, another CPA's retirement.

(2) To obtain specializations or personnel.

(3) Continuity, geographic.

It is interesting to see priorities shift as firms grow and objectives are achieved. Having specific firm objectives rather than just general intentions is important for success.

For how long did you negotiate?	*A*	*B*	*C*	*D*
Less than 4 months	*8*	*6*	*2*	*2*
4 to 8 months	*5*	*2*	*0*	*0*
8 to 12 months	*1*	*2*	*0*	*0*
Over 12 months	*2*	*1*	*0*	*0*

Some things do not improve with age including, apparently, negotiations. Mergers that are most likely to be successful are those in which the participants have clearly defined objectives. They do not try to put together pieces that do not fit.

Were the following items examined or decided upon during negotiations:

Partners' outside activities?	*A*	*B*	*C*	*D*
Yes	*19*	*3*	*1*	*1*
No	*3*	*9*	*2*	*2*

It's surprising that group B did not deem outside activities important.

Billings and collections?	*A*	*B*	*C*	*D*
Yes	*22*	*10*	*3*	*3*
No	*0*	*2*	*0*	*0*

Billings and collections appear to have been on everyone's mind. Billing rates are often a stumbling block in making a merger.

Death policy?	*A*	*B*	*C*	*D*
Yes	*20*	*7*	*2*	*2*
No	*2*	*5*	*1*	*1*

It is surprising that 9 out of 40 did not address themselves to this inevitable occurrence.

Demerger provisions?	*A*	*B*	*C*	*D*
Yes	*11*	*4*	*0*	*0*
No	*10*	*8*	*3*	*2*

Considering that divorce can and does occur, it is astounding that most people do not address themselves to this possibility.

Departmentalization?	*A*	*B*	*C*	*D*
Yes	*14*	*4*	*2*	*1*
No	*7*	*8*	*1*	*2*

This is obviously more significant in larger practice units than in smaller ones.

Disability policy?	*A*	*B*	*C*	*D*
Yes	*17*	*7*	*2*	*1*
No	*5*	*5*	*1*	*2*

It is hard to conceive that one-third of the respondents do not consider this an important item.

Expense reimbursement policy?	*A*	*B*	*C*	*D*
Yes	*19*	*4*	*1*	*1*
No	*3*	*8*	*2*	*2*

This can be a difficult issue to resolve after a merger and is best examined before it results in a problem.

Firm location?	*A*	*B*	*C*	*D*
Yes	*19*	*10*	*2*	*3*
No	*3*	*2*	*1*	*0*

Where the merged firm should be located seems to concern nearly everyone, in part because of the problems of what to do with the old lease.

Firm name?	*A*	*B*	*C*	*D*
Yes	*18*	*9*	*3*	*3*
No	*3*	*3*	*0*	*0*

A major consideration and a problem—people's egos are often the single greatest deterrent to mergers. The egos win the battle but lose the war.

Firm philosophy?	*A*	*B*	*C*	*D*
Yes	*19*	*8*	*2*	*2*
No	*2*	*4*	*1*	*1*

I was pleased to see that most respondents discussed this item because it shows they have defined the objectives they wish to achieve.

Gross billing?	*A*	*B*	*C*	*D*
Yes	*21*	*11*	*2*	*3*
No	*1*	*1*	*1*	*0*

Results are as expected from an accounting oriented group.

Labor turnover?	*A*	*B*	*C*	*D*
Yes	*16*	*6*	*2*	*1*
No	*5*	*6*	*1*	*2*

You should want to know if the other firm has a high turnover problem. This item is not considered as frequently as it should be.

Managing partner?	*A*	*B*	*C*	*D*
Yes	*18*	*5*	*2*	*1*
No	*4*	*7*	*1*	*2*

The response of group B is surprising. Many people seem to be timid about discussing this.

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Net profit before partners' salaries?

	A	B	C	D
Yes	19	8	2	1
No	3	4	1	2

I would have anticipated a stronger yes posture because this is a measure of operating efficiency and effectiveness.

Organization chart?

	A	B	C	D
Yes	14	1	1	0
No	8	11	2	3

Note the response of group B. It is surprising that duties are not well-defined before a merger, and this makes me wonder whether people will continue to do "their thing" after the merger, thus defeating its purpose.

Partners' percentages?

	A	B	C	D
Yes	18	9	3	1
No	4	3	0	2

As stated previously, we are a number-oriented group.

Partners' salaries and/or draws?

	A	B	C	D
Yes	18	10	3	2
No	4	2	0	1

A significant premerger point, and I am surprised that in some instances it was not covered until after the merger.

Partnership agreement?

	A	B	C	D
Yes	18	9	1	2
No	3	3	2	1

Without this document, the chances of failure are much greater. I'm amazed that almost one-third of the respondents did not appear to have the agreement ready for execution before the merger.

Personnel policies?

	A	B	C	D
Yes	19	3	2	0
No	2	9	1	3

A firm's personnel is one of its most valuable assets and should be provided for in the merger agreement. Conflicting personnel policies will often create subsequent difficulties.

Professional participation?

	A	B	C	D
Yes	13	4	2	2
No	7	8	1	1

This tends to be indicative of the creation of a firm image and an awareness of the benefits that can be derived from professional participation.

Provisions for admitting new partners?

	A	B	C	D
Yes	15	7	2	1
No	5	5	1	2

We don't know our future needs and this can be a difficult provision to handle. However, it shouldn't be ignored.

Recruiting policies?

	A	B	C	D
Yes	15	3	1	0
No	5	9	2	3

Possibly one of the less critical points, as was reflected in the responses.

Retirement policy?

	A	B	C	D
Yes	18	9	1	2
No	3	3	2	1

How you get out is as important as how you get in.

Staff salaries?

	A	B	C	D
Yes	15	10	3	2
No	5	2	0	1

This should be examined carefully. Too wide a variance in the salary scales of merging firms can result in staff dissatisfaction and possibly destroy the merger.

At the time this survey was taken, approximately 10 percent of the respondents were actively involved in merger negotiations, although most of them did not expect a merger to take place for over a year.

An interesting point that became apparent is the marked shift in objectives as firms grow, with the larger firms becoming more interested in regional expansion. This seems to portend that we will see more large firms, but I do not believe this trend will result in total disaster for smaller high-quality practice units.

I believe the responses of group B showed the most surprises and the least consideration to the substantive issues necessary to effect a successful merger. In spite of this, none of the respondents demerged.

The survey provides an insight into what makes or breaks firm mergers and can be a useful checklist to those contemplating such a union. It is better to look before you leap, so don't be afraid to discuss mergers with practitioners who have done it. They are usually quite honest as to the do's and don'ts and as to how they would do it differently another time. (I act as referee on occasion, and I ask the participants those questions that they are too shy or embarrassed to ask each other.)

You should be as prepared for a merger as you are for an audit. Pursue a merger aggressively if that is your objective, but don't spend a lot of time and energy pursuing something that won't come to fruition.

Learn to listen and to suggest as opposed to talking and telling. With the right attitude and organization, you have an excellent chance of participating in an advantageous and successful merger.

Now, getting back to those opening sentences, I tend to think that a more practical definition of mystique is "that which we have not thought about, haven't tried or don't understand." And, I like the second definition of myopia, "lack of foresight."

So, when it comes to mergers, recognize the mystique, overcome the myopia and then maybe you won't miss the opportunities.

–by Sidney F. Jarrow, CPA
Chicago

The AICPA MAP Conferences—A Reminder

The Fairmont Hotel in San Francisco is the site of two of this year's AICPA MAP conferences. The first, on July 30-31, will have practice growth and development as its central theme, and the presentations will cover such things as how you can define and project a professional image, make a favorable first impression with your stationery, reports, etc., obtain new business from present clients and capitalize on what you do well.

People management is the topic of the second conference at the Fairmont Hotel on August 2-3. Speakers will suggest ways practitioners can obtain the type of people they want and how staff can be motivated through evaluation and goal setting.

The third conference, at the Marriott Hotel in Philadelphia on September 13-14, will deal with various aspects of partnerships. Subjects such as preventing partner problems, how to evaluate partners and reward excellence and providing for retirement and death in partnership agreements will be featured.

Firm management and administration is the theme of the fourth conference which will be held at the Marriott Hotel in Chicago on November 1-2. Participants can learn how to develop and utilize a quality control program, select and use EDP equipment, make better use of time and structure firm policies through committees.

Brochures and registration forms have been mailed to members.

Practice Management Profile

Annually since 1972, the Arkansas, Louisiana, New Mexico and Oklahoma state societies have joined with the Texas society in surveying members regarding operating data and other information on the management of an accounting practice. The results are published as a regional report. Members of state societies in Colorado, Florida, Maryland, New Jersey, Oregon and Washington were included in the 1978 survey (several additional states have indicated a desire to join in the 1979 survey) and were tabulated separately.

Complete sets of the reports are available only to those firms that responded to the survey. However, Ernest D. MacIver, chairman of the Texas society's MAP survey committee, has supplied us with some of the highlights.

The 857 responses (599 from Texas) were classified as: individual practitioner, nonnational firm and national firm. The nonnational firms were further subdivided into three basically equal groups by the number of total personnel as follows: small (2-7 people), medium (8-13 people) and large (over 13 people).

Mr. MacIver points out that while comparisons may be made with prior years' statistics, the respondents to the 1978 questionnaire may not be the same as those included in the past, and some firms may now be in different categories because of growth or mergers.

One comparison that should be of interest is the average net income per partner for 1972 through 1978 (Exhibit 1). Although there has been a substantial increase in net income in all categories during the six-year period, the smaller firms have not kept pace with inflation. This might suggest a reexamination of the fee structure in these cases. The figures in color in the three exhibits represent the firms with the highest 25 percent net income per partner or practitioner. A blank space in a column indicates that insufficient replies were received.

Exhibit I

Average Net Income Per Partner 1972-1978

	Individual	Nonnational			National[1]
		Small	Medium	Large	
1972	$42,417	$38,796	$47,145	$51,195	$ —
	24,342	26,048	31,047	36,311	50,915
1973	45,382	41,352	49,864	55,367	—
	25,641	25,987	30,496	30,084	76,926
1974	57,155	40,804	49,687	63,680	—
	28,784	26,245	33,446	42,991	84,711
1975	51,631	45,858	61,389	68,061	—
	27,441	29,027	38,708	45,423	86,784
1976	54,306	44,465	65,264	72,820	150,287
	29,598	28,565	41,002	49,890	96,370
1977	58,242	46,385	67,293	76,382	128,439
	32,603	30,159	41,577	52,310	88,596
1978	60,932	53,885	83,003	86,546	125,228
	33,567	33,900	48,294	59,298	96,154

Percentage increase all respondents 1972-1978

	Individual	Small	Medium	Large	National
Net income	37.9	30.1	55.6	63.3	88.9
Firm net fees	39.5	35.3	55.2	64.6	39.2

Replies from respondent firms were divided by the number of partners, totaled for each size group and divided by the number of firms in each group to arrive at the average.

[1]Average was calculated by dividing total office net income by total number of partners. Home and regional overhead may or may not be included in responses.

Exhibit II

Statistical Profile

Size of Office	*Individual*	*Nonnational*			*National*
		Small	*Medium*	*Large*	
1 Partners	1.0 1.0	2.5 2.2	2.3 2.6	4.5 4.7	10.0 5.3
2 CPA members	.6 .2	.9 .4	2.3 1.4	8.5 5.5	46.2 19.5
3 Other professional	1.8 .9	1.4 1.3	3.9 3.7	10.2 8.7	30.7 15.7
4 Office and nonprofessional	1.4 1.1	1.3 1.3	2.6 2.5	7.2 5.8	22.8 10.5
5 Total	4.8 3.3	6.1 5.2	11.1 10.2	30.3 24.7	109.7 51.0
6 Average net income per partner[1]	60,932 33,567	53,885 33,900	83,003 48,294	86,546 59,298	125,228[3] 96,154[3]
7 Average net fees per firm	133,426 71,521	224,468 136,051	381,226 279,632	978,968 715,865	3,988,258 1,761,828
8 Average percentage increase in net fees[2]	17.0 19.6	19.1 20.4	22.5 19.9	19.7 15.4	17.1 16.0
9 Average square feet of office space per person[1]	298 293	316 285	252 265	221 235	219 219
10 Average charged hours per person[1]	1,354 1,145	1,366 1,149	1,342 1,314	1,354 1,283	1,175 1,121
11 Average percentage of standard fees realized	88.1 83.7	92.5 87.0	89.2 87.9	91.9 90.2	91.5 85.7
12 Percentage of respondents using standard billing rates	78.2 73.5	82.9 79.4	93.5 87.2	97.0 96.2	100.0 100.0

(1) Replies were divided by number of partners or personnel, totaled for each size group and divided by the number of firms in each group to arrive at the average.

(2) Percentage increase in net fees was computed for each reply, totaled for each size group and divided by the number of firms in each group to arrive at the average.

(3) Average calculated by dividing total office net income by total number of partners. Home and regional overhead may or may not be included in responses.

Exhibit III

Percentages of Partners and Practitioners with Various Net Incomes

	Individual	*Nonnational*			*National*
		Small	*Medium*	*Large*	
	.0	.0	.0	.0	.0
$1—$15,000	17.1	11.3	.0	.5	.0
	.0	1.2	.0	.0	.0
$15,000—$19,999	10.8	8.7	6.4	1.4	.0
	.0	4.7	.0	.0	.0
$20,000—$24,999	16.6	18.8	9.7	2.7	.0
	.0	2.4	1.4	.6	.0
$25,000—$29,999	11.7	14.2	7.6	8.0	2.1
	.0	11.8	4.2	3.0	5.7
$30,000—$39,999	15.5	20.1	21.6	14.1	9.3
	33.3	30.6	8.5	9.1	5.7
$40,000—$49,999	10.5	11.7	20.4	16.8	18.6
	32.4	25.9	4.2	9.1	11.4
$50,000—$59,999	8.7	8.4	9.4	15.0	19.6
	19.4	8.2	22.5	22.0	20.0
$60,000—$74,999	5.2	2.6	11.9	20.0	16.5
	6.5	10.6	40.8	26.8	28.6
$75,000—$99,999	1.6	2.9	8.8	12.6	19.6
	7.4	3.5	9.9	12.2	11.4
$100,000—$124,999	1.9	1.0	2.4	4.0	7.2
	.9	1.2	8.5	17.1	17.1
Over $124,999	.5	.3	1.8	4.8	7.2
	99.9	100.1	100.0	99.9	99.9
Totals	100.1	100.0	100.0	99.9	100.1

Percentages of Firms with Various Net Annual Fees

	Individual	*Nonnational*			*National*
		Small	*Medium*	*Large*	
	.0	.0	.0	.0	.0
$1—$25,000	16.9	2.1	.0	.0	.0
	1.8	.0	.0	.0	.0
$25,001—$50,000	29.5	3.5	.0	.0	.0
	10.9	.0	.0	.0	.0
$50,001—$75,000	19.2	15.6	.0	.0	.0
	18.2	.0	.0	.0	.0
$75,001—$100,000	11.0	18.4	.0	.0	.0
	40.0	5.7	.0	.0	.0
$100,001—$150,000	15.1	21.3	6.4	.8	.0
	17.3	31.4	.0	.0	.0
$150,001—$200,000	4.8	19.9	13.6	.8	.0
	10.0	37.1	.0	.0	.0
$200,001—$250,000	2.7	12.8	23.2	1.5	.0
	1.8	25.7	87.1	6.1	16.7
$250,001—$500,000	.9	6.4	53.6	30.0	17.4
	.0	.0	12.9	30.3	.0
$500,001—$750,000	.0	.0	3.2	32.3	26.1
	.0	.0	.0	30.3	.0
$750,001—$1,000,000	.0	.0	.0	18.5	8.7
	.0	.0	.0	33.3	83.3
Over $1,000,000	.0	.0	.0	16.2	47.8
	100.0	99.9	100.0	100.0	100.0
Totals	100.1	100.0	100.0	100.1	100.0

Ten Ways to Get Sued . . .

The following 10 *rules* for getting hit with a lawsuit were cited several years ago in a speech by David B. Isbell, Esq., a Washington, D.C., attorney. They are worth repeating in view of our increasingly litigious society.

1. Choose clients who are about to go under and stick with them.
2. When your client is in difficulty, let him cow you by blaming you for delay in discovery of the problems, by threatening loss of the account, by telling you "we're all in this together," by threatening suit.
3. Choose clients whose principals are not honest, and take no extra precautions.
4. When trouble develops, keep your own counsel, don't consult your colleagues, and never consult an attorney.
5. Leave your engagement in oral form and as vague as possible.
6. Pay no attention to statements on auditing standards, pronouncements of the FASB and [positions of the accounting standards executive committee].
7. Make representations freely.
8. Use technical terms in a loose and carefree fashion.
9. Be casual about the way you perform your professional work generally.
10. Always sue for unpaid fees.

These rules are expanded upon, with examples, in a booklet which is available from the AICPA's plan administrator, Rollins Burdick Hunter Co., 605 Third Avenue, New York, New York 10016. Ask for *How to Get Sued.*

. . . And What to Do If You Are

If your firm is served with a summons, appropriate action should be taken as soon as possible and, most likely, an attorney should be consulted. Section 217.03 of the AICPA *Management of an Accounting Practice Handbook* suggests a number of steps that might be applicable. Here are some of them:

- ☐ Notify your professional liability insurance carrier immediately. If the insurance company undertakes defense of the suit and retains legal counsel, decide if the firm should also retain its own counsel for advice and guidance on its protection.
- ☐ Appoint someone within the firm to handle all matters and communication related to the suit, and tell all partners and staff members how to respond to questions.
- ☐ Secure all files, working papers, reports and related records that may be subject to subpoena, and place them under the control of one person.
- ☐ Review all reports, etc., comparing facts to those alleged in the complaint, and check for possible violations of generally accepted accounting principles, auditing procedures and lack of compliance with the firm's policies. Do not add or delete anything from these records except upon instruction from counsel.
- ☐ Determine if expert witnesses are needed and list possible candidates.
- ☐ If the suit is brought by a current client, consider whether or not to terminate the association and services. If brought by a third party, consider what the relationship with the client should be when defending the suit.
- ☐ Identify information and documents that should be obtained from the client, former client or third parties.

There are other decisions that may have to be made as the case progresses, such as requesting a jury trial, settling out of court, seeking a summary judgment or establishing a countersuit.

Conference Tips

Sponsored by the AICPA's management of an accounting practice committee, the fifth annual conference for chairmen of state society MAP committees will be held on July 18 at the Marriott Hotel in St. Louis, Missouri.

The purpose of these conferences is to exchange ideas on AICPA and state society MAP programs so that members can be provided with the best possible information on operating their practices. For example, this year's sessions will include discussions on establishing a MAP committee and organizing MAP seminars, conferences and roundtable groups.

At one of the sessions last year, the 34 participants (representing 27 states) heard Jim Grimsley, then chairman of the AICPA MAP conference subcommittee, discuss what has proved successful at the AICPA MAP conferences.

Although the intent was to aid state societies in increasing their MAP activities, practitioners who are involved in organizing other types of conferences or firm seminars might also find much of this information helpful. Here are a few of Mr. Grimsley's suggestions.

- ☐ Planning is the key to a successful conference and should be undertaken as soon as possible. Site accessibility should be carefully considered.
- ☐ The development of a central theme for the conference can be helpful in tying together individual presentations and in controlling the session.
- ☐ Control is also enhanced if the moderator and all panelists remain seated at the head table during roundtable discussion periods and question and answer sessions. (Roundtable discussions are a major part of AICPA MAP conferences and receive high ratings from participants.)

  In addition, some participants like to ask questions immediately after a presentation, and it can be helpful if the moderator and panelists stay at the head table for the first few minutes of a refreshment break so that attendees' queries can be answered.
- ☐ Speakers should be enthusiastic and professional, use high-level materials and have supplemental data, forms, etc., that can be handed out. A speech outline with space for notes is also popular with participants, and presenters should be encouraged to refer to the headings in the outline during their speeches.
- ☐ Don't rely solely on familiar speakers. Despite the risk, use less experienced people because it increases the pool of available talent. However, make sure that they have been heard before in a similar situation.
- ☐ Have a back-up speaker at the conference in case one is needed. (This job is often best assigned to a committee member.)

Obviously, no one conference format is right for every occasion, and some experimentation will probably be necessary to determine what works best in a given situation.

In this regard, Mr. Grimsley emphasized the desirability of pre- and post-conference meetings of the moderator, speakers, committee members and staff to ensure that the chosen conference format is understood and that feedback from the attendees may be evaluated and utilized at a following conference.

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