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IN THIS ISSUE

Money, Power Issues Dominate Initial Acquisition Meetings

"It's always about partner compensation."

Editor's Note: *This is Part Two of a two-part feature on first meetings between "acquirer" firms and the firms that they hope to acquire. Part One, which ran in the October issue of PAR, focused on the need for acquirer firms to approach first meetings from a relationship perspective. Part Two delves into how an acquiring firm must address compensation and other issues of primary concern to the partners of the potentially acquired firm.*

Money and power.

No, that is not a teaser for the latest prime-time TV soap opera.

Allan D. Koltin

If you are a partner who is hearing a proposal from a firm that wants to acquire your firm, compensation and control issues are almost certainly your top concerns. Even in an initial meeting regarding a potential acquisition or merger, these two topics transcend all others. It is likely that the same question is in the minds of every person in the room: How would this deal affect my compensation and my ability to control the work that I do?

The leadership of a potential acquirer firm must understand this fact in order to move successfully beyond the first meeting in an acquisition discussion, explained Allan D. Koltin, CEO of Chicago-based **Koltin Consulting Group**, in an interview with *PAR*.

Of the two variables—money and power—the former takes precedence in the minds of potential acquiree partners.

"When people say the merger or acquisition is not about partner compensation, it's *always* about partner compensation—every word, every sentence. The human factor in every partner [leads them to ask], 'How, if at all, will that affect my compensation?'" Koltin said.

Therefore, in a first meeting with a potential acquiree firm, the leaders of an acquirer firm need to establish that their firm is more profitable than the acquiree, with higher partner compensation. They also need to "give comfort" to the acquiree that if the firms' respective compensation programs are dissimilar, the acquirer has a plan to resolve those differences, he said.

"If you [the acquirer firm] have more of a goals-based system that has objective and subjective measures, and the acquiree is 100% formulaic 'eat what you kill,' then you have to explain to them how you are going to convert them to your system and why it's not going to penalize them or cost the acquiree firm partners earnings.

"So, maybe you talk about a two- to three-year phase-in period, or a two- to three-year compensation guarantee period, but you've got to take [on] the elephant in the room, which is always partner compensation: 'Will I make more, the same, or less if we merge with that firm?' That calculation is going on in the heads of their partners all the time," Koltin explained.

Another financial consideration is the difference in the firms' capital requirements, Koltin added.

"If you're a firm that has a very small capital requirement of partners—you only have to contribute $10,000, $25,000 or $50,000—and you're now talking to a [acquirer] firm that has a capital requirement where you have to contribute one-times compensation—$300,000, $500,000, $700,000—you'd better be able to describe how you're going to bridge that gap," he noted.

In such cases, Koltin explained, the acquirer firm might offer a program that allows partners of the acquired firm to take anywhere from three to seven years to make their capital contributions. In addition, the acquirer firm might guarantee bank loans the partners could obtain in order to meet their buy-ins.

Another compensation issue that can make or break a first meeting is whether the acquirer firm is willing to "give an outsider a better deal than an insider," Koltin said.

Sometimes, the potential acquiree firm "is actually more successful. They make more money, and their buyout might be larger. While there are times where the acquirer should walk away from that deal, there are times where the acquirer has to bite the bullet and say, 'We want to be in this market. They're the top firm in this market, and we've been waiting 10 years to get in this market, so maybe we need to build a premium into our offer. We have to have the willingness to give the outside a better deal than even some of our own partners,'" Koltin said.

That may be a tough sell to the acquirer firm's existing partners, and Koltin explained that the firm would need to have strong leadership that could emphasize the value over the useful life of the relationship, which could perhaps last 20 or 30 years.

Koltin cited an example in which two top 25 U.S. firms both wanted to enter the Chicago market via acquisition. Faced with the prospect of a needing to make a premium

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offer, one made a take-it-or-leave-it proposal. The second firm, Koltin said, "went back to its partners and said, 'We're going to have to accept probably making a little less money next year to get this deal done, but here's long term what this deal could mean.' As the next 10 years played out, the firm that was flexible took a $10 million firm and turned it into $50 million in revenue, and the firm that was too rigid and set in its ways still has yet to enter that market. Sometimes you have to break code and go where no one else has gone before."

Compensation aside, in order to succeed in a first meeting, prospective acquirer firms must understand, from the acquiree's perspective, the psychological effect of giving up power and control.

"The No. 1 reason smaller firms don't want to [be acquired by] bigger firms is that they're worried about having a boss, about being told what to do, about being put at risk, about having to transfer clients and about being pigeonholed. That is a big [issue] and many, many deals have been lost over it," Koltin noted.

In such cases, it is important for the acquiring firm to illustrate examples of when, in past deals, the acquired firm has not had to give up control, continues to do virtually all of the same things it did before, and will find that new processes are either "an upgrade or neutral," Koltin said.

Another potential deal breaker is whether a partner at an acquiree firm will be able to remain a partner after the acquisition, or if he or she will enter the acquirer firm as a nonequity partner, Koltin said. Typically, this is not a great concern for an older partner, if his or her retirement is unaffected. Younger partners are more likely to reject deals where their roles will be perceived as less powerful, however.

"The younger partner might say, 'Wait, I've got to start this [equity partnership] game all over? I'm not going to vote for that,'" he said.

Another potential obstacle that acquirers may need to address in a first meeting involves mandatory retirement age. Acquiree firms may have partners in their 50s or 60s who want to work until, say, age 70. Meanwhile, an acquirer firm may have a strict mandatory retirement age, for example, age 60 or 62, or at least a mandatory liquidation of shares, after which the partner can stay on in a less lucrative status as a nonequity partner. Koltin has found that some acquirer firms hold fast to its mandatory retirement policies and will not make exceptions for partners at an acquiree firm.

"When [acquirer firms] play hardball on that, it's a big eliminator … Those are the firms that don't get invited back," Koltin said. "If you give the acquiree a premium to let a couple of partners work until age 70, in a firm with a couple hundred partners, does it really matter?"

Koltin added that not only is it beneficial to be flexible on mandatory retirement policies, it is important to present your position in the first meeting with the proper sensitivity. Koltin cited examples of the acquirer firm quoting its policy, then offering the exception.

Koltin cited examples in which "the [older partner at the acquiree firm] would say to me, 'They're going to let me do it, but who wants to be in an environment where they're whispering about you?' No one wants to feel they've overstayed their visit. Sometimes, even when the acquirer presents [the exception], if they don't say, 'We've been flexible [before], and here's what we've done,' they're not going to get that second chance." ■

PAR News Digest

Eric Hansen, COO of BKD LLP, based in Springfield, Mo., will be the next chair of the AICPA. Hansen, 56, was elected by the AICPA governing council. Bill Reeb, chief executive of the management consulting firm Succession Institute, was elected vice chair. Both men will assume their duties on Feb. 1 and serve through May 20, 2019. Hansen's priorities for his term include harnessing technology to create more value for clients and businesses; extending the profession's influence in a connected, global society; and evolving professional skills, advancing learning opportunities and creating future leaders. As COO at BKD, Hansen oversees firmwide operations and acts as a liaison between

BKD's national office and its four regions. He previously served as managing partner of the firm's offices in Oklahoma. Throughout his career, Hansen has provided audit, tax and consulting services to companies in the manufacturing, healthcare, construction, transportation and financial services industries.

President Trump named David Kautter—an alumnus of RSM LLP and EY—to serve as the interim head of the IRS. The appointment came Oct. 26, and Kautter stepped into the role after the current chief, John Koskinen, finished his term on Nov. 12. Kautter is a partner at RSM and leader of the Washington national tax group. He is also assistant treasury secretary for tax policy. Kautter worked at EY for three decades before leaving in 2011 to serve as managing director of American University's Kogod Tax Center. At EY, Kautter served as the director of national tax practices at a time when the firm was engaged in an extensive effort to assist wealthy clients with tax avoidance schemes. Kautter managed the "strategic direction, day-to-day operations, and quality of technical advice" for EY's firmwide tax practices, according to his LinkedIn profile. Between 1999 and 2004, EY developed a team to devise strategies to help shield clients making more than $10 million from having to pay U.S. taxes. The effort allowed approximately 200 wealthy clients to avoid paying taxes worth about $2 billion. In 2010, four of the individuals involved in the illegal tax-shelter scheme were sentenced to serve between 20 and 36 months in prison, although two of the sentences were later overturned. In 2013, EY paid the IRS a $123 million settlement relating to the scheme. Kautter never faced charges related to the initiative. In a Senate Finance Committee hearing, Democrats joined Republicans to approve him as assistant treasury secretary by a 26-0 vote. Kautter did face questions about the tax avoidance scandal during his confirmation hearings and told lawmakers that "the firm set up a separate reporting structure with respect to tax shelters" that did not involve his office. "When I took over, that was the system that was in place and continued until the tax shelter group was dissolved," Kautter said. He expressed regret for not preventing the scheme. (*Sources: New York Times, Fox Business*)

There are four types of clients with potential to turn into your business upside down, and they're the worst possible clients for your firm, according to Accountancy Age. These four types of nightmare clients are (1) The "Wink wink, nudge nudge" client. This client is willing to cut corners to minimize tax liabilities, whether it's trying to pass off shady deductions or buying into some type of creative tax avoidance scheme. But worst of all, they won't tell you—leaving you having to comb through their documents extra carefully to make sure that you're not accidentally party to something that could put your firm and your reputation at risk. These clients ask you to push the boundaries when it comes to doing their taxes, say they want to do "whatever it takes" to lower their tax bill, or ask you to do something sketchy. (2) The "It's coming tomorrow, I promise!" client. Getting slammed with a bunch of documents around tax time is par for the course for an accountant, and it can take time for clients to get organized, but some clients don't seem to understand that tax deadlines are non-negotiable, leaving you constantly chasing them down for documents. These clients expect you to perform the impossible to get the paperwork that they've delayed for months submitted on time. Their emails always start with "apologies for the delayed reply." You waste valuable time that could be used serving other clients by chasing these offenders. (3) The "Wait, I'm supposed to keep track of my expenses?" client. They either don't understand or simply won't keep track of their financials, which leads to all kinds of headaches. They might mix their business and personal expenses or want you to be able to make a bunch of deductions for them but not really know which expenses they want to deduct. They don't understand how important it is to keep track of everything; they pay for everything—business and personal—from one account. (4) The "I want your advice so I can refuse to take it" client. Sometimes having clients who are financially savvy can be great, but some of them know just enough to make them want to challenge you. You're happy to have conversations about all their different options. But for whatever reason, some clients seem to want you to give them financial advice so they can turn around and do the exact opposite. They ask for some basic advice, then explain why it's not right for their business. ■

EXECUTIVE FORUM

Executives Rely on Strong Communications Plans to Drive Firmwide Goals and Create Inclusive Cultures

Communication is key to managing a successful firm. Firms with embracing and applauded cultures recognize that effective communication is essential to keeping everybody in the firm focused on their tasks, goals and priorities. This month, firm executives share and describe the systems and policies they have in place to ensure that everybody within their firms stays informed about issues and concerns firmwide.

Michelle Loyd Thompson

Michelle Loyd Thompson, *managing partner, audit and assurance services, and firmwide CEO-elect,* **Cherry Bekaert**/*Raleigh, N.C. (FY17 net revenue: $175 million; 125 partners; 1,000 total staff; 12 offices)*:

Communication takes many forms in a professional services firm—digital (email, intranet, social media), virtual (meetings, videos) or in person. Communication is two-way. In managing a professional services firm, you should actively solicit feedback and input. You should not view communication as a top-down exercise. You must take into consideration that the same message needs to be heard at least seven times before it's fully received, and that each person receives information differently. This is complicated in matrix-managed organizations where there are multiple avenues or people communicating. I find that effective, frequent and honest communication often removes many of the barriers to the implementation of programs and initiatives that otherwise might falter. Conspiracy theories abound when people are left to wonder about the reason for many decisions. While all the details of the decision cannot and should not be shared, honest proactive communication of the process will often neutralize the conspiracies. People may not totally agree with the decision, but the talk will be about that, not motives. Because of the nature of our business, there is a need for formal and predictable communication to match the cadence of technical, policy and business matters that impact the day-to-day performance of employees' jobs. However, it is the informal communication, where there is an opportunity to listen, that creates trust. Trust is the foundation of managing and leading a professional services firm. Trust is built through transparency, which is achieved through honest and open communication.

Rob Dutkiewicz

Rob Dutkiewicz, *president,* **Clayton & McKervey**/ *Southfield, Mich., (FY17 net revenue: $13 million; nine partners; 75 total staff)*:

The flow of information within an organization rarely moves in a linear fashion, so leaders have to use a variety of channels to gather and share information and set and achieve firm goals. As president, my No. 1 communication priority is reinforcing the importance of Clayton & McKervey's core values, vision and mission throughout the organization. When we have a key initiative we want to introduce, we communicate and discuss on multiple levels. For example, in 2016, we set out to permanently establish a women's network. The network offers training, development and networking opportunities for women in the firm to connect to one another, and to link female role models and mentors together. With our shareholder group comprised of 45% female CPAs, we understand the importance of providing equal access to ownership both now and well into the future. Yet, our high percentage of women in management required a greater level of communication as to why we felt we needed a women's network now. Wasn't that counterintuitive? We didn't think so—we saw it as a talent issue, not necessarily a gender issue, and communicated it as such. The Women's Network started as a conversation with a few staff members and expanded into a small committee before being rolled out to the shareholder group during an annual offsite planning session. Once vetted, the plan was presented to managers and principals in a separate meeting to allow for questions and conversation. We then presented this key initiative to the entire firm in one of our town hall meetings. At each step of the way, stakeholders had the opportunity to ask questions or seek clarification about our plans. One of the ways that we ensure full firm engagement in communication is to offer remote access to conversations through our investment in technology called LifeSize, which allows offsite employees to be both seen and heard. As programming, events and initiatives of The Women's Network continue to unfold, firmwide communications include email, our internal newsletter, live meetings and regular staff updates, as well as a comprehensive staff survey of participants to make sure we weren't missing the mark. Externally, we shared our progress with clients, friends and the profession through our newsletter, press releases, and social media. The Women's Network is a good example of how multi-pronged communication often must be in order to be effectively received by intended audiences.

Craig Savell

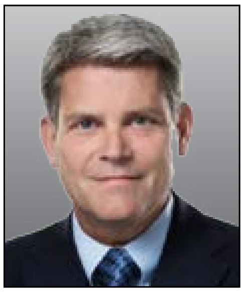
Craig Savell, *co-managing partner,* **Margolin, Winer & Evens**/*Garden City, N.Y. (FY16 net revenue: $41 million; 26 partners; 203 total staff, two offices)*:

Regular, frank and open communication among the firm's shareholders and the staff is one of the key reasons why Margolin, Winer & Evens has been so successful for more than 70 years. The firm's culture has long embraced a collegial "open door policy" where partners are always available to answer staff questions and provide professional guidance. Employees are empowered and encouraged to bring any work-related concerns they might have to their managers or to the firm leadership. The firm's official mentorship program is also a crucial two-way communication tool. As part of their orientation, younger staff are paired with an experienced mentor. This pivotal program, which includes regularly scheduled meetings, helps forge deep and long-lasting relationships at all levels of the firm. Mentors closely guide our staff in both the hard and soft skills they'll need as they develop in their careers. Additionally, staff are able to give management crucial insight into day-to-day issues. Our annual review process is also a key communication tool, giving staff and their supervisors the opportunity to reflect on the prior year, assess performance and give constructive feedback to help staffers grow into the future leaders of the firm. The partners also meet on a monthly basis to discuss the business of the firm and to strategize on ways to keep MWE as an employer of choice. In addition, the firm's marketing department regularly sends out an internal newsletter highlighting charitable and business development activities which had recent staff participation. This inspires younger staff to get more involved in taking part in activities that help grow the firm.

Chris Millias

Chris Millias, *managing partner,* **OUM & Co.**/*San Francisco (FY16 net revenue: $17.6 million; 11 partners; 68 total staff, two offices)*:

At OUM, we are constantly working to enhance our communication with all staff. Starting with our inter-office website, when you turn on your computer, it's the first thing that comes up. Today, I posted a fraud alert that impacted two of our clients. We post daily, both serious and fun stuff. This year, we've implemented real-time automated performance surveys for timely feedback. Our performance coaching program includes meetings during the year with a mentor. This has proven to be really effective. We also hold staff-level meetings throughout the year to discuss topics that are top of mind and collectively agree upon action items. Last year, we initiated a firmwide wellness program that includes a monthly wellness newsletter and ongoing fitness challenges. To share firmwide information, we hold monthly departmental meetings and an annual State of the Union event. Our most popular gathering spot is our beautiful kitchen (large table, TV, and great snacks) because honestly, that's where everyone shares information on a daily basis. My office is right next to the kitchen, so it's where I get my best information!



Jim Proppe

Jim Proppe, *managing partner,* **Plante Moran**/*Southfield, Mich. (FY17 net revenue: $468.6 million; 292 partners and entity members; 2,200 total staff, 24 offices)*:

At Plante Moran, we have several systems in place to ensure a culture of open communication and transparency, including (1) a communication structure where management team members speak to the firm's five-year vision, industry and service group leaders share information specific to their practice groups, office managing partners deliver a consistent message throughout their offices, and team partners meet with individuals or small groups to reiterate the message and answer questions; (2) quarterly financial updates on our intranet where we share information about our financial performance and give staff the opportunity to respond with questions; (3) associate meetings (managers and up) led by management team members and designated to share information and answer unfiltered questions; (4) a "Speak up! If something's not right, we'll change it" model that includes formal and informal outlets to encourage staff to ask questions and provide feedback; and (5) an annual firm conference where all staff come together to celebrate and learn more about our culture, new initiatives, promotions, financial performance, and staff awards. With an organization of 2,200-plus people, this interconnected network of communication ensures everyone has the opportunity to share information and be heard.

Heidi LaMarca

Heidi LaMarca, *president and CEO,* **Windham Brannon**/*Atlanta (FY17 net revenue: $25 million; 13 partners; 160 total staff)*:

Successful communication at any firm starts at the top and needs to go beyond emails sent to employees periodically updating them on the state of the business. It needs to be a continuous, interactive flow of information and ideas that empower employees to be a part of the evolution and growth of the firm. At Windham Brannon, we utilize several points of engagement to ensure our employees are involved and actively working toward our business goals. In addition to regular firm updates, monthly newsletters, a feedback program and a bi-weekly update to our partners, I hold monthly informal small team breakfasts to allow employees to ask questions and share ideas or concerns. We also do "temperature checks" through surveys on internal benefits and perks. Finally, one of the most important pieces of communication comes through development and our coaching program. Every employee at Windham Brannon is assigned a coach to help guide them through their professional development. ■

PEOPLE, FIRMS AND PROMOTIONS

Erin Triolo was named enterprise division leader at **Apex CPAs & Consultants**, based in St. Charles, Ill. She will oversee consulting, accounting and financial guidance of projects for clients and help identify opportunities to reduce operational risk. She also joined the firmwide leadership team and will assist with growth initiatives.

BKR International admitted **SVP Chartered Accountants** of Doha, Qatar and **Ronalds & Assoc.** of Nairobi, Kenya, to membership.

Baker Tilly International named **Timothy Christen**, former chairman and CEO of Chicago-based **Baker Tilly Virchow Krause**, as the network's new chairman. Christen recently completed a term as chairman of the **AICPA**. (*See related item, page 3*.) He was elected by Baker Tilly International's board of directors and will serve a four-year term. Christen succeeds **Jim Castellano**, former chairman of St. Louis-based **RubinBrown**, who was Baker Tilly International's chairman for 15 years.

Brown Smith Wallace, based in St. Louis, named **Bernard Ottenlips** as a state and local tax services principal. Before joining BSW, Ottenlips was a director for the **PwC** St. Louis indirect tax practice.

Cherry Bekaert, based in Richmond, Va., elected **Michelle Loyd Thompson** as firm managing partner and CEO on Oct. 18. Thompson will transition from her current position as managing partner of the firm's assurance services practice and assume her new role May 1. She is based in the firm's Raleigh, N.C., office. In addition to serving as managing partner, Thompson will become chairman of the firm's executive board. Thompson will succeed **Howard J. Kies**, who will step down May 1 after serving as managing partner for the last 27 years. Under his leadership, Cherry Bekaert experienced continuous advancement through strategic acquisitions and organic growth initiatives to include expansion into all major metro markets in the Southeast; development of industry and specialty groups; restructuring the firm; and building a "one firm" culture resulting in Cherry Bekaert's revenue growing from $20 million to more than $200 million. In addition, **Christopher "Chris" Rux** was named managing partner of the firm's Tampa Bay, Fla., practice. Rux served as an audit partner prior to his promotion.

New York-based **CohnReznick** elected three partners to serve as the newest members of its executive board. They are **David Kessler**, **Mike Micholas**, and **Alan Wolfson**. Kessler, based in Washington, is national director of the firm's Commercial Real Estate Industry Practice. Micholas is regional managing partner of the firm's Mid-Atlantic Region and is based in Washington. Wolfson is office managing partner of the firm's Manhattan office. The three new members will serve three-year terms. **Risa Lavine**, principal and chief of staff, was re-elected to the board.

Dixon Hughes Goodman, based in Charlotte, N.C., named **Frank Graham** as CFO. He succeeds **Mary Frazier**, who was named chief performance officer. Both are based in Charlotte. The firm also admitted 11 new partners. They are **Natalie Centeno** (tax/Charlotte); **Stephanie Fenner** (tax/Gaithersburg, Md.); **Louie Galbraith** (assurance/Tysons, Va.); **Kelly Hill** (assurance/Charlotte); **Wanda Justus** (healthcare consulting/Greenville, S.C.); **Luke Martonik** (assurance/Tysons); **Chris Masone** (healthcare consulting/Greenville); **Wesley McLeod** (assurance/High Point, N.C.); **Rob Oden** (assurance/Newport News, Va.); **Brian Smith** (assurance/Tampa Bay, Fla.); and **Teri Sowder** (tax/Jacksonville, Fla.). In addition, **Will Sneed** was named president of **DHG Wealth Advisors**. Previously, he was a managing director. Sneed succeeds **Woody Hoyle**, who continues to work with his individual clients.

McHale P.A., based in Fort Myers, Fla., named **Veronica Larriva** to partnership.

Morison KSi admitted **Pere Lopez Economistes** of Andorra la Vella, Andorra, to membership.

Plante Moran, based in Southfield, Mich., opened an office in Tokyo. **Eigo Yamamoto**, principal in the firm's management consulting practice, is the office's leader and will serve as a local contact to Japanese clients with U.S. operations. PM serves more than 100 Japanese-owned companies, and a physical location in Japan will help the firm work closer with Japanese clients as they navigate the American business environment. PM's Japanese Business Services practice includes a team of English- and Japanese-speaking CPAs accredited in both the United States and Japan.

RKL LLP, based in Mechanicsburg, Pa., is joining Mechanicsburg-based **Padden, Guerrini & Assoc.**, effective Jan. 1. The transaction enhances RKL's position in the region, growing the size of its local team to approximately 50 members. The two firms share respected positions serving the credit union and senior living industries, in addition to serving middle-market commercial clients. This transaction will place RKL in the top 10 firms serving credit unions nationally. PGA's five partners and 26 team members will join RKL, which employs a total of nearly 400 team members. The Mechanicsburg office will represent the sixth Pennsylvania-based location for RKL.

RyanSharkey, based in Reston, Va., admitted four new partners. They are **Perry Kessler** (assurance), **Anthony Ricciardella** (financial advisory), **Travis Sherman** (tax), and **Ricky White** (financial advisory). ■