

## THE JOB OF THE MANAGING PARTNER – PART 1

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### Managing Partner Considerations

The purpose of this column series is to review some best practices as to how the managing partner is elected, what is expected, for what term, and how he/she is protected if removed from that role. The job differs whether it is being filled under the Eat What You Kill (EWYK) or Building a Village (BAV) models. For example, under the EWYK model, the managing partner is likely the largest equity partner, or if not, then the default would be that the role of the managing partner would be that of administrative partner. Because the EWYK model is usually a silo model built around superstars, the managing partner's role is to handle all of the matters that the other partners don't want to do. It is not uncommon in these scenarios that the managing partner earns a stipend to fill that position, and that the stipend is not very much (maybe \$25,000 to \$75,000 a year). Certainly there are examples of a managing partner in an EWYK model having a higher stipend, but the stipend typically would fall into this range. Why? Because in this model it is about book of business and partners doing their own thing, with all of the partners trying to live within a loose set of rules or policies designed mostly to mitigate risks regarding work quality while following minimum compliance expectations. It is also common for the managing partner (MP) in these situations to have the largest or second largest book while simultaneously being expected to do this job. With this in mind, it is perfectly logical that the firm would be treated by an MP in this position as just one client among many, and in many cases because the firm is not a paying client, it would have even less priority than the average client. Part of the reason for the firm's low priority status is because the other partners see the MP role as an administrative position to handle nuisance administrative matters that pop-up in the normal course of running a firm. It is not uncommon for these organizations to ask questions regarding the MP position such as:

- Should we just rotate the MP job every year or two so that everyone has to take their turn doing it?
- If the MP has client work to do or billable work to do, isn't that where he/she should focus their time first rather than on this non-chargeable work?
- Isn't the managing partner just the person who manages the administrative functions of the firm?
- If we paid the managing partner to really run the firm, wouldn't that just reduce the amount of money the rest of us will make since we are losing that person's billable hours?
- Wouldn't this kind of change put more pressure on the line-partners since they will have to do more client work to make up for the MP no longer pulling his/her weight in this area?
- Explain to us (the partners) how we can afford to pay someone to manage the firm and why we would want to do this in the first place since we certainly don't need to be managed?
- Can't we just hire someone outside the firm to come in and fill the managing partner position? That way, we don't lose a client service partner.

In other words, in the EWYK philosophy, there is virtually no appreciation of the benefits obtainable through better management and accountability. And the perception really is that everyone needs to just focus on production and everything will work out fine.

Under the BAV model, the managing partner needs to be in a position to respond to the firm as if it is his /her largest and most important client. This usually requires a reduction in managed book size so the firm can become the managing partner's key priority. Under the BAV philosophy, the better that people (all people, especially partners) are managed, the greater the profitability and the better run the organization. As you know from the previous paragraph on the EWYK version of this position, they couldn't be further apart as to expectations and importance regarding this position. So, since there isn't much to the role of managing partner in the EWYK variation, we are going to spend most of the rest of this column series on best practices to consider for the managing partner in the BAV model.

### **Here is a quick definition of the role of managing partner**

An elevator description (a description short enough to be shared in the length of time it takes to ride up a couple of floors while in an elevator) of the managing partner's role would be:

The Managing Partner is the firm's chief executive officer who is responsible for managing the day-to-day operations of the Firm.

To clarify this in a little more detail, the Managing Partner is:

- Responsible for implementing the strategic plan and firm-wide goals as approved by the board of partners (or board of directors, which we refer to throughout our books interchangeably). He/she will accomplish this by directing the firm's people and resources within the powers, limitations and responsibilities set forth by the partner group through directives, policies, processes and budgets approved by the partners.
- Accountable only to the full partner group (the board of partners), not individual partners. Therefore, the relationship between the Managing Partner and any individual partner when a partner represents him/herself as being a member of the board of partners is collegial, not hierarchical. However, as individual line partners, each will report directly to the managing partner (or in a large enough firm with many partners to a department head who reports to the MP). Know that one of the most essential roles of the MP is to manage the partners.
- Keeps partners informed of the firm's progress, statistics and focus areas.

### **Roles and Responsibilities of the Board of Partners versus that of the Managing Partner**

We wanted to take a couple of pages and introduce at a generic level some common differences between the Roles and Responsibilities of a Board of Partners (or Board of Directors) and that of the Managing Partner. The main reason to introduce the Board into this discussion is because the most common violation we see in governance is the Board usurping the role of managing partner or the managing partner seizing powers reserved for the Board. Just know that balance

of power between these two is important for accountability, profitability and sustainability so allowing either group to venture into the territory of the other starts to undermine your firm's future success.

We know from working with firms and coaching them through this process that the line between these two key governance roles can be vague at times. But with a little practice dealing with various issues that arise, seeing the line will become clearer and maintaining will become easier with each situation you address. With this in mind, let's review some generic roles and responsibilities for these two positions:

### **Generic Partner Group Roles and Responsibilities (or Partner Board)**

Ultimately, the Partner Group, acting as a Board of Directors, is responsible for the Firm's vision, setting its direction and creating the framework (e.g., budget, policies, procedures, powers, and limitations) to carry out that direction.

To summarize, the Partner Group, acting as a Board:

- Coordinates Firm-wide operations by establishing objectives, formulating policy, and approving goals and programs.
- Advises management of the policies it has adopted to ensure their effective implementation.
- Protects the Partners through the proper management of the Firm's assets. This involves the continual evaluation of all financial affairs and management practices.
- Provides for proper communications among the people involved.
- Creates Partner Group (Board) committees to assist with definitions and objectives of strategic issues.

### **Matters Requiring Board Approval**

- (1) The sale, merger, dissolution, or matters of insolvency or bankruptcy of the Firm (in addition to partner approval)
- (2) The filing or settlement of lawsuits
- (3) Insurance coverage limits
- (4) Admission or dismissal of Partners (refer to voting methods)
- (5) The strategic plan and amendments to it
- (6) Appointment of Chairman of the Partner Group, officers and committees
- (7) The Firm-wide operating and capital budgets
- (8) Per transaction expenditures in excess of \$50,000 per occurrence that are outside the currently revised budget
- (9) Leases of Office Space
- (10) Firm-wide policies and procedures
- (11) Firm-wide marketing plan

### **Generic Managing Partner Roles and Responsibilities**

The Managing Partner of the Firm shall be a Partner of the Firm, is the Firm's chief executive officer, and shall have all of the powers and duties set forth in the Firm's partnership agreement.

The Managing Partner is responsible for managing the day-to-day operations of the Firm and directing its people, within the limitations set forth by the Partner group (Partners), in a way that the Firm can achieve the directives, policies and strategies of the Partners.

To summarize, the Managing Partner:

- Is to be held accountable for the Firm meeting specific expectations as set forth by the Partners. The Managing Partner is ultimately responsible for the achievement of Firm-wide goals.
- Is accountable only to the full Partner group, not individual Partners. Therefore, the relationship between the Managing Partner and any individual Partner is collegial, not hierarchical when in the Partner Group role.
- The Managing Partner is the direct supervisor of the individual partners and is to hold them accountable for their role in achieving the strategy plan and objectives of the firm.
- Implements the strategic plan as approved by the Partners. This includes developing the Strategy Implementation Plan.
- Keeps the Partners informed of the Firm's financial results, status of new business development, effectiveness of the compensation system and the status of competitors in our target markets.
- Continually reviews the services and activities of the Firm to ensure the Firm is maintaining a competitive edge.
- Presents recommendations to the Partners on matters requiring approval by the Partners.
- Meets regularly with administrative and support staff (e.g., Chief Financial Officer, HR Director, Marketing Director, IT Director and Administrative Services Manager, or whatever positions the Firm uses in this area) to provide direction regarding priorities and lead strategic efforts.
- Reviews Firm financial statements and reports to the Partners on important matters (e.g., items appearing unusual or out of the ordinary).
- Facilitates and monitors Firm-wide internal communications.
- Ensures that the needs of major clients are being satisfied.
- Resolves serious client complaints.
- Develops and monitors key performance metrics for the Firm.
- Reviews and monitors the Firm's continuing professional education program.
- Works closely with the members of the Board on the Firm's strategic plan development and revisions to that plan.
- Periodically reviews the HR Plan, if any, for new hires, terminations and transfers.
- Participates in professional and community associations, attends association meetings, and stays abreast of changes in the profession.
- Develops and maintains relationships with managing partners of competing and alliance firms.
- Monitors Firm-wide scheduling and ensures the efficient utilization of staffing resources.
- Plans and oversees a minimum of one Partner retreat per annum.

- Drafts policies, procedures, and processes for Partner or Board approval. This includes Standard Operating Procedures and Partner Policies and Procedures.
- Reports to the Partners or Board on recommendations or other matters requiring approval.
- Works with the compensation committee regarding the partner compensation methodology or formula and related monthly draw distribution schedule (to be approved by the Partners).
- Develops individual Partner goals (e.g., documented in Partner goal memorandum) and monitors progress against those goals.
- Reduces a Partner's monthly distribution when appropriate due to insufficient capitalization

While the Board CAN override the MP at any time, the Board should work hard not to. While the Board CAN deal with operational issues daily, the Board should avoid this temptation and keep its fingers out of that level of micromanagement. As issues arise, and they often do in order to address specific operational events, the key is for the Board to talk about those specific operational issues in context of creating, improving, changing, clarifying policies and processes rather than making specific operational decisions. Once the policies and processes have been formulated and improved, it is up to the MP to carry them out.

This is a good point to stop our discussion regarding the managing partner job. We will pick it up next time with why the MP should be the one charged with implementation and accountability and continue to build from there. Here's wishing you a profitable and less stressful tax season than last year!