THE JOB OF THE MANAGING PARTNER – PART 2

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First of all, we at Succession Institute hope you had a wonderfully prosperous and marginally stressful tax season!

Now that you have a few moments to step back from an overwhelming amount of work, we thought we would pick up on our discussion about the managing partner position. As you may remember from my first column on the Job of the Managing Partner – Part 1, we covered:

- Managing Partner (MP) Considerations
- A quick definition of the role of managing partner
- Roles and Responsibilities of the Board of Partners versus that of the Managing Partner
- Generic Partner Group Roles and Responsibilities (or Partner Board)
- Generic Managing Partner Roles and Responsibilities.

And as I committed, we are picking up the discussion in this column as to why the MP should be the one charged with implementation and accountability and continuing to build from there.

WHY THE MP IS THE ONE CHARGED WITH IMPLEMENTATION AND ACCOUNTABILITY

As we have said so many times before, everyone likes the idea that "I" will hold "me" accountable. But few like the idea of "anyone else" holding "them" accountable. So, once it is decided that accountability is important and someone needs to be responsible for implementation, the discussion quickly shifts to "let's form a group of people, like an executive committee or a compensation committee to hold us accountable." The reason for this choice is simple. Because we are one of several partners, we have accepted the fact that a group of partners can outvote any one partner. But that is a long way from accepting the idea that any individual can tell "me – the partner" what to do or be in a position to judge how well I am doing it. As well, by adding more people to the evaluation process, it is easier to find a friend or ally who will be willing let me off the hook or overlook my infractions. Well, unfortunately, this is true. Accountability rarely is very effective when performed in group. So, just for the record, anytime we hear that performance assessment will be a group evaluation function, if we had an aggravating buzzer at that moment in time, we would surely set it off as loud as we could.

An executive committee, a compensation committee or groups of partners make a lot of sense to tackle specific functions. So we are not suggesting that it is inappropriate to have groups or committees operate within the firm; we are just suggesting that accountability isn't a good charge for that organizational makeup. Let's consider what might make sense then. For example, note that a compensation committee, if formed, would normally be a committee of the Board of Directors (or Board of Partners, etc.). It is not typically a committee that has unique dictatorial authority, although sometimes for very specific matters it does. In our opinion, compensation committees should be charged with:

- Development of the firm's compensation system philosophy or framework to be approved by the Board based on the strategy of the firm,

- The review and evaluation of the overall annual performance and any changes in role within the firm for each partner and recommending base pay adjustments for future years to be approved by the Board,
- Recommendations, if the situational calls for such, for objective metrics and firm-wide incentives as minimum standards for all partners to accomplish so that the firm can accomplish its strategic plan, which are recommended first to the Managing Partner, and then to the Board for consideration.

Notice that the compensation committee in this description does the heavy lifting on determining base pay and when certain objective categories of compensation are carved out for all partners to achieve, they would have a say in that too. But this committee should be established to make recommendations to the board for approval or ratification.

Now, what is not clear in the description above is the managing partner's role in this process. The general compensation framework guides all partners. However, because each partner has strengths and weaknesses, and each partner has different responsibilities and job duties, there needs to be a customizable set of goals assigned to each partner based on:

- Leveraging strengths,
- Improving weaknesses,
- Meeting minimum standards of performance across all competencies, and
- Accomplishing those tasks that are uniquely the responsibility of a particular partner.

For this, management by committee, yes – like a compensation committee – is a bad idea. Why? The most significant and success-driving job of the managing partner is to manage the partners. If he or she directs a partner to accomplish something specific or change a behavior or attitude, without a material compensation stick to reward achievement or punish failure, there is virtually no way the managing partner can consistently hold the directed partner accountable. The most common argument posed here is that the managing partner can work through the compensation committee to affect the same outcome. There are situations where this might work … not because the system is designed to work, but because the specific people on the compensation committee and the managing partner have such respect for each other that they can overcome the dysfunction of the system in place.

It is essential for the long term success of firms to put governance systems in place designed to succeed, regardless of who occupies the various roles, rather than to build systems around specific people and relationships that quickly fail when there is a shift in talent or personalities filling those roles. To put this in very clear terms:

> *The managing partner needs a compensation stick that he or she alone determines for each partner regarding the specific, individualized goals set out for each partner based on the objectives identified in the strategy plan.*

Please recognize the difference between governance rights and privileges, and common sense. For example, a managing partner should:

- Set clear goals for each partner,
- Outline the goals at the beginning of the year,
- Meet with each partner to discuss those goals, provide a current assessment of accomplishment and offer guidance as to where to focus additional attention to achieve the goals, and
- Meet regularly enough to provide the partners with insight as to their performance with time to make course corrections so they can achieve those goals, which would be at a minimum quarterly, often every other month, and sometimes even monthly.

The managing partner's job is to help the partner achieve his/her goals, not just sit in judgment of the partner. And a managing partner absolutely shouldn't do what we sometimes find, which is:

- Use their power for personal gain instead of what is best for the firm,
- Use compensation to manipulate partners to vote a certain way, drive a wedge between certain partners or fragment the firm into factions

When a managing partner is not following common sense values and objectives such as outlined above, it does not mean that you should dilute the power of the managing partner's position. Do not turn over the powers a managing partner requires to be effective to a compensation committee just because you have an incompetent, selfish, self-serving or greedy managing partner. Rather, fire that managing partner and install one who will do the job as outlined.

It is one thing for a compensation committee to evaluate performance regarding objective criteria -- those metrics that are approved as part of the overall compensation plan each year. And it is just as acceptable for that committee to analyze trends in pay, performance, job duties, etc. and propose pay range adjustments. But the pendulum swings way too far when a firm positions the compensation committee to assess a partner's individual performance against customized goals which often encompass some subjectivity. It is an inappropriate job of a committee to meet with each partner regularly and assess progress and provide feedback. That function belongs solely to the MP, just as it is not the job of the compensation committee to regularly coach partners in behavior and developmental transitions as that function also belongs to the MP.

Since we mentioned the executive committee above, we feel we should at least take a moment and discuss that as well. Way too many medium to smaller firms (firms with less than 20 partners) put executive committees in place. As you grow to 20 partners or more, having a governance level between the managing partner and the board of partners may make sense simply because there is no reason to drag 20 people into every conversation that seems to rise above day-to-day management that might require interpretation or tweaking of policies, processes, strategy or budgets. Unfortunately, it is common to see an executive committee in a 10 partner firm, or even a 5 partner firm, with many of them requiring the membership of 1 or 2 founding (or senior) owners for as long as they are members of the firm. Generally speaking, these executive committees have been put in place to offset bad practices the firm has put in place over time, like:

- The senior owners admitted some partners in order to protect their income streams. In other words, at a point when a manager had become so involved with a senior partner's book of business that he/she didn't want to take the chance of losing clients if the manager got disgruntled and left, that senior partner pushed to lock in that manager to the firm by making him/her a partner. Just so you know, most of the time, that new partner will continue doing the manager level work on that senior partner's book and not really be allowed to function as a real partner.

- The firm gives every partner the same voting rights. So each partner, whether he/she has been with the firm 1 day or 25 years has one vote when making firm decisions.
- The senior owners want to make sure no matter how many partners they add that they will always be in control of the decision making (usually based on an EWYK mindset and therefore they don't believe that anyone other than someone just like themselves would ever be good enough to carry on the business without them).
- The partners put a managing partner in place with no power except to handle the firm administrative activities so they leave all of the real power in the hands of the executive committee to make sure no one can hold them (the senior owners) accountable. Etc.

These are the most common reasons we find executive committees in firms that have less than 20 partners. Our arguments are pretty simple for not doing this. Don't mess up good governance processes with bandaided approaches. Address the real problems. For example, do away with the one partner one vote mentality and go to equity ownership voting. Put a real managing partner in place with the appropriate power and responsibilities and allow him/her to hold all of the partners accountable to the firm strategies and objectives. Stop making managers into partners if they are not worthy of being a partner. And certainly make every partner, regardless of why they were admitted as a partner, live up to full roles and responsibilities of a partner. And most important, senior owners, get over the fact that you started the firm and know more than anyone else. If you really did, you would be far better at grooming your replacements and you would be building better leaders. If you can't build good enough leaders to replace you, that alone is reason enough for you to step down controlling everything so that maybe someone else can build a firm that can be successful without you.

The point of all of this is … executive committees in firms with less than 20 partners are usually put in place to counter earlier bad decisions. If that is the case, fix the real problems so you can allow the firm to be successful and scalable long-term. Know this … executive committees rarely do a good job of holding partners accountable. If you want accountability, some ONE needs to be in a position to do so. And for the partners, that some ONE should be the managing partner.

Our next column will pick up this discussion by covering managing partner election and firing processes, as well as some ideas as to how he or she should be compensated.