

THE JOB OF THE MANAGING PARTNER – PART 3

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As you may remember from my first and second columns on the Job of the Managing Partner – we covered:

- Managing Partner (MP) definition, considerations and Roles and Responsibilities
- Roles and Responsibilities of the Board of Partners versus that of the Managing Partner
- Generic Partner Group Roles and Responsibilities (or Partner Board)
- Why the MP is the One Charged with Implementation and Accountability
- The role the compensation committee might play in accountability

In this column, we will pick up this discussion by covering the managing partner election and firing processes.

ELECTING, THE TERM AND DISMISSING THE MANAGING PARTNER

Electing

Often, firms elect a managing partner with a majority vote, but to dismiss a managing partner within their elected term requires a higher vote, commonly two-thirds of the equity vote. In some larger firms, the people running for managing partner might not be eligible to vote in this process, but in many others, everyone can vote. The reason why everyone should be allowed to vote is simply that the smaller the firm, the more likely that removing the candidates being considered for the position puts too much control in the minority ownership of the firm. For example, consider the following six-partner firm scenario:

- Partner 1: 30% ownership
- Partner 2: 30% ownership
- Partner 3: 10% ownership
- Partner 4: 10% ownership
- Partner 5: 10% ownership
- Partner 6: 10% ownership

In this situation, if partners 1 and 2 were being considered for the managing partner position and neither could vote, even if all of the partners voted for the same person, a 40% minority vote would control who was elected as the managing partner. For that reason, when voting is taking place, we suggest creating a two-tier hurdle process for a vote to be valid. The first hurdle is that those allowed to vote have to meet the minimum threshold. So if the threshold to elect a managing partner is a majority vote, since the four partners voting in our scenario above are the only partners eligible to vote (because there is a policy that does not allow those being considered for the position as eligible to vote), then with all four partners electing the same person, they certainly meet the majority vote threshold as they voted 100% for the same person. Therefore, they met the first hurdle for voting. The second hurdle that we suggest would invalidate this vote because we believe that for any decision to be made, the actual votes cast

have to minimally tally to at least a majority of the total equity interest votes of the firm. In this case, all four 10% owners only represent 40% of the total votes of the firm, so they do not meet this threshold. Therefore, it would be an invalid vote, and why many smaller firms allow everyone to vote or they might not ever be able to meet the second threshold. There are many scenarios where our two-tiered voting hurdle become a great sanity check as a firm might achieve a vote of 66 2/3 on one level, and still be valid because that group also represents over a majority of the overall firm equity. But even more important, it creates a check-and-balance that partners can't manipulate the voting process by putting up multiple large equity owners for positions just so a minority interest can control the final results. We have seen a lot of situations where you, the reader, would say, "Oh, come on ... that doesn't happen!" Just for the sake of transparency here, we would like to rebut that "Oh Yes it does!"

The Term

Next let's talk about the term of the managing partner. We recommend a five-year term with no limit on how many terms a managing partner can hold. There are a number of reasons for this, and following are those that we feel are the most critical to consider:

- There is a belief in many firms that any partner can step into the role of managing partner and be just as good as the next partner. That is a myth. While we believe anyone can be a good managing partner, they need to be willing to take on the job and learn to do it well. For some, it will come more naturally, but managing people, partners and implementation of change are all skills that are required and can be learned. The problem with the belief that anyone can be an equally good managing partner; is that most partners, when considering their current skill set, are not:
 - suited to lead and motivate people,
 - willing to handle conflict as necessary,
 - comfortable holding people accountable,
 - talented at managing and developing people,
 - good at implementation, and
 - skilled at gaining consensus and support for change, just to name a few
- The myth above (about any partner being able to be a good managing partner) would support the ridiculous idea that a firm should rotate the MP job every year or two. Just so you know, if this is a serious recommendation within your organization, it is only because the MP role is deemed to be one of administration only and it is being rotated to equally punish all partners since it is perceived as a necessary burden rather than a function critical to the firm's improvement and future success.
- Many change initiatives take at least three years to implement, whether they involve an internal change in the way all of the partners manage the tax workflow process, or implementing a new compensation system, etc. Reelection of the managing partner any less than every three years destines the firm to be ineffective in making significant changes.
- Most people who take on the role of managing partner don't get into a rhythm of doing it well for at least two years. As well, it takes time to shift client load to free up that partner

to do the job, and then it takes time for the managing partner to become effective and efficient at doing many of the new tasks assigned to that role.

Therefore, with all of this in mind, we believe that a five-year term is the right place to start. If someone does a good job, they should certainly be re-electable. And when the current MP stops doing a good job, then elect someone else. Five years is a good number because it allows the managing partner to be in the job long enough to learn how to do it well and implement significant changes, but not so long that if that person starts to lose interest in doing the job or stops putting the firm first, you have a naturally reoccurring election cycle to easily resolve that problem.

Firing the Managing Partner

The above discussion leads us to the question, “Even if we re-elect the managing partner every five-years, how do we handle the situation when the managing partner is either not doing the job he/she has been elected to do, or doing the job too poorly to keep it?” The answer is to fire the current managing partner and hire a new one. However, this process is a little more complicated than it first appears. The reason is that if you don’t address this issue properly, you will likely never get anyone to be effective in filling the managing partner role in the first place because you did not address how you were going to make them whole again if they wanted to step down or you decided to remove them. Without this information, human nature will normally drive anyone filling that role to protect themselves first (e.g., not being willing to shift their book, or not fully committing to the job). Without a firm’s full commitment to the MP when taking the job, then the person filling the MP role will likely only partially commit to doing it – holding on to much of their old line-partner role – just in case they need to quickly step back into it since they never fully left that old job in the first place.

Because of the substantial administrative role and duties of the managing partner and the natural shifting of client service responsibilities to other partners that is required during his/her term, should the MP step down, voluntarily or involuntarily, the firm needs to commit upfront to transition him/her back to a line partner position with a work-load, client-load and compensation package comparable to that of other line partners of similar seniority or ownership. There are a number of ways to accomplish this, so any variation to achieve this task is good enough. The simplest way is to transition them back is to put the stepped-down managing partner in a similar compensation position (proportionally adjusted given changes in the business) as he/she was before the acceptance of the managing partner position. Or leave the ex-MP at a similar pay level until the line-partner workload can be fully adjusted and implemented to make that person whole.

The simple strategy here is to put the ex-MP in a position comparable to where he/she would have been had the managing partner position never been accepted and that person had continued to be a line partner during that interim. The fact is that when that line partner accepted the managing partner position, he/she took a risk to transition from doing work he/she was already performing well to take on something the firm felt he/she could do that would be more important. So, while the managing partner should not be entitled to a windfall for stepping down, he/she certainly should be made whole when it is time to step down. Once the adjustment

is complete, the ex-MP should be evaluated and compensated based on his/her contribution, either up or down, just as any other line partner would be.

Notice required when the Retiring Partner is also the Managing Partner

When the retiring partner is also the managing partner, three years' notice should be required instead of the traditional two years' notice because of the additional time required to transition this important role. Once three years' notice is given by the retiring managing partner, upon that notice (three years out from retirement), a new managing partner should be elected by the firm. Because the managing partner is retiring rather than being removed, the first year of this three-year period is the managing partner role transition period. During this year, the retiring managing partner will still fill the role of managing partner and the newly elected managing partner will use this period to become acclimated to the duties of the job. At the end of the first year, the newly elected managing partner will become the managing partner of the firm, and the retiring managing partner will step aside and begin transitioning all of his/her other duties and client responsibilities.

During the final two-year transition period of the retiring managing partner, the newly elected managing partner will be responsible for determining the necessary transition activities required by the retiring managing partner, as well as updating him or her as to progress regarding plan achievement, and for the final determination right before retirement to be presented to the board as a summary of successes and failures of that transition plan.

In our final column on this topic, we will pick up with compensating the management partner as well as addressing a few other issues relative to this topic.