

Managing your partner resource

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Agenda

- Attributes & how to assess them
- Tiers of partner
- Profits sharing regimes
- Capital structures
- Performance management and SMART objectives
- About us
 - www.howardhackney.co.uk/contact-and-biographies-howard-hackney-llp/biography-of-howard-hackney.html
 - <http://evolvelegal.co.uk/about-us/>
- Questions at end of each section
- Please leave business cards for slides



Attributes & how to assess them



Background

- Member of partner assessment panel
- Industrial psychologist
- Detailed interviews over two days

- Fundamental attributes
- Subsidiary issues
- Method of assessment



Fundamental attributes

- Motivation
- Intellect
- People
- Organisation



Motivation & intellect

- Motivation
 - To add & contribute for the sake of it
 - NOT for status & reward
 - NOT for praise
 - Self motivated
 - “Death bed” question
- Intellect
 - Flexibility
 - See other points of view
 - Argue “black is white”
 - For lawyers unlikely to be an issue – BUT for accountants.....!!



People & organisation

- People
 - Understanding
 - NOT liking or being liked
 - Ability to change style to get best from people

- Organisation
 - Use of in tray test
 - Ability to prioritise
 - Defer
 - Delegate
 - Say no
 - Bring in resources



Subsidiary issues

- If have fundamentals these should follow
- Proven work getting
- Credibility
- Technical competence



Assessment methodology

- Simulated scenarios
- Open questions
- Past experience
- By interview
- Non confrontational



Tiers of partners



Tiers of partner

- Salaried
- Fixed Share
- Equity
- Hybrid
- HMRC consultation



Characteristics of partner types

Characteristic	Salaried	Fixed Share	Equity	Hybrid
Guaranteed salary	Yes	No	No	No
Prior salary	No	Yes	No	Yes
Variable profit	No	No	Yes	Partial
Exposure to losses	No	Probably not	Yes	Yes
Employee taxes	Yes	No	No	No
Self-employed taxes	No	Yes	Yes	Yes

HMRC consultation on taxation of partnerships

- Current antipathy towards contrived arrangements aimed at avoiding tax
- 2013 budget announced consultation in respect of partnership tax
- Substance of self employed status
- Profit allocation to entities not subject to income tax regime



Self-employed status

- HMRC concern over disguised employment status
- Removal of presumption that self-employed
- Conditions for being classed as an employee – EITHER:
 - IR35 type of approach re contract, control over working patterns, managerial influence
 - Lack of economic risk + no “significant” profit share + no share of assets on winding up



What now?

- Be prepared to be challenged by HMRC:
 - Deem as employees
 - Tax payable earlier
 - Different NIC regime
 - Taxable benefits
- Introduce hybrid partners:
 - >5% remuneration as variable profit share
 - Some voting rights
 - Beware of using artificial schemes (TAAR)
- Note that legal status unaffected – just reclassified for tax purposes

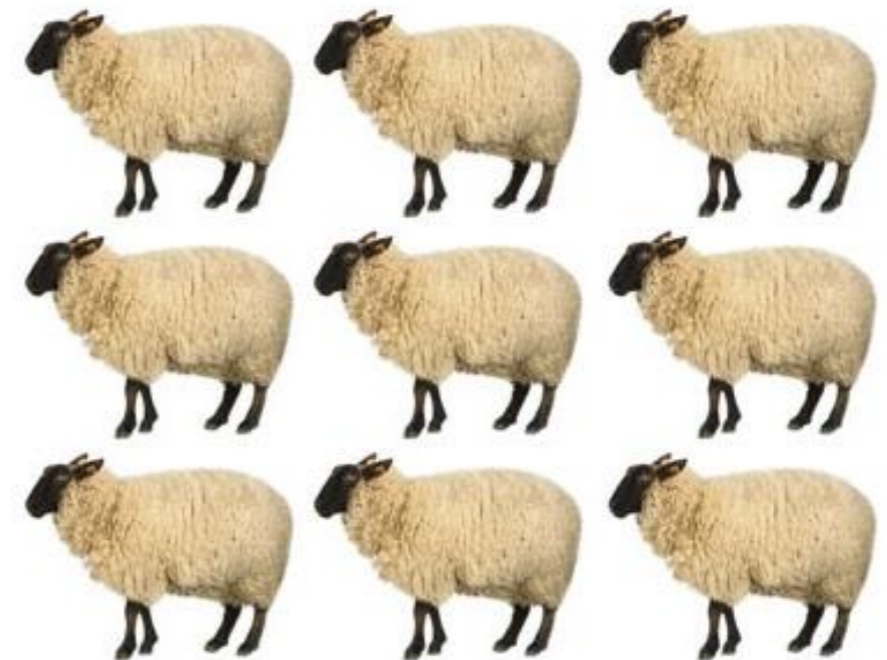


Profit allocations and income tax

- Corporate members of LLP
- Tax arbitrage to reduce tax charge
- “Economic connection” between partners and corporate member
- Apply income tax to owners of corporate member on just and reasonable basis
- Is there a commercial reason for structure other than tax arbitrage?



Profit sharing regime



Profit sharing

Concentrate on size of cake

Profit sharing and capital integral to one another

Most important issue at end of year?

What can the partners draw!!

How do I compare with my “mate” down the corridor

Looking at true equity only, not grades of partners

Is the theoretical structure right

Every system has its pros and cons - team v. individual



Theory

Equality via lockstep

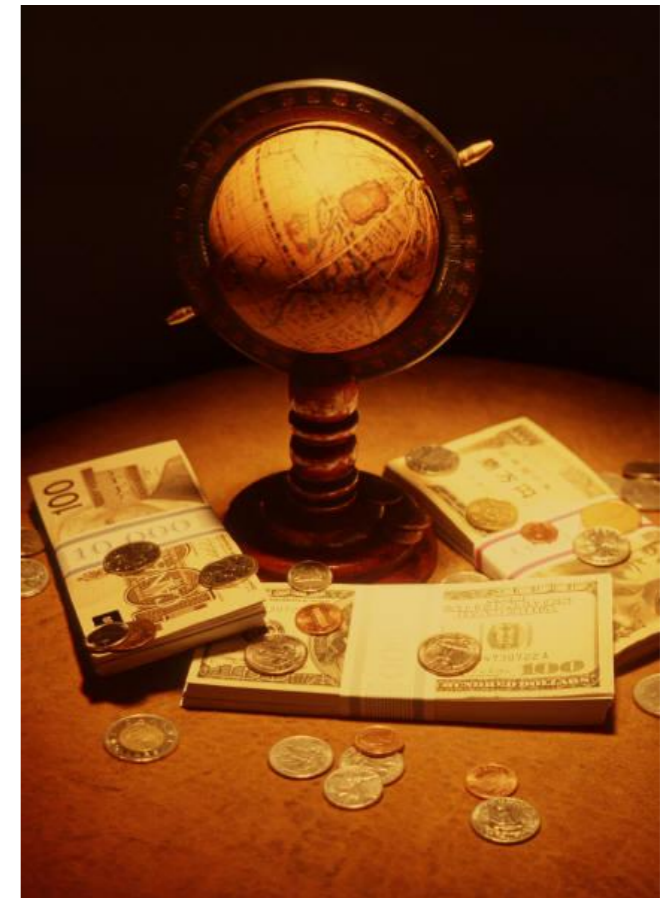
On performance

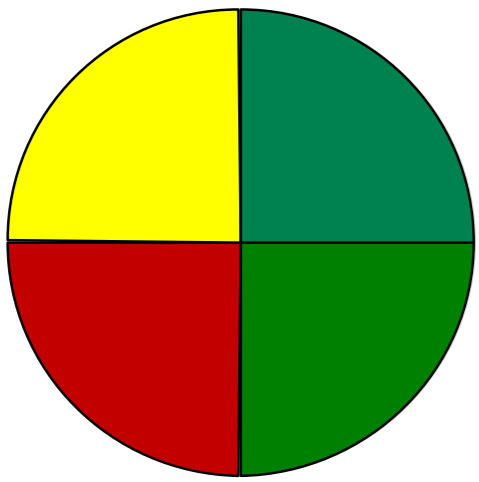
A mixture of the two



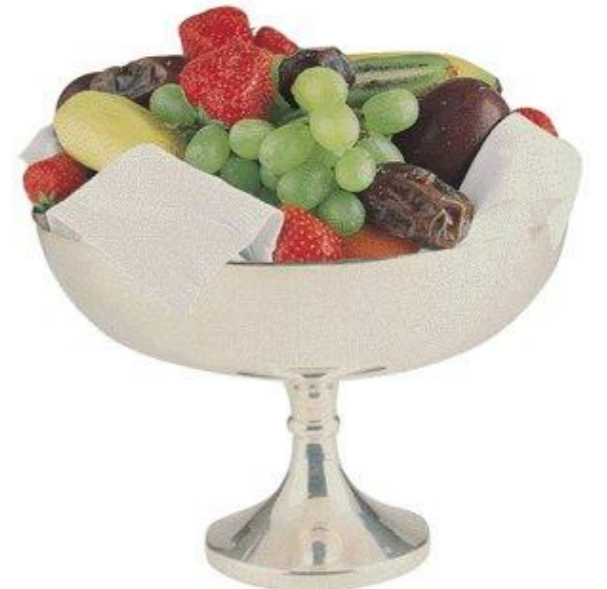
Objectives

- Fairness
- Simple & understandable
- Potential to
 - Motivate
 - Grow the cake
- Flexible
 - Allows new partners
 - Super/under performers
 - No need to revisit every year



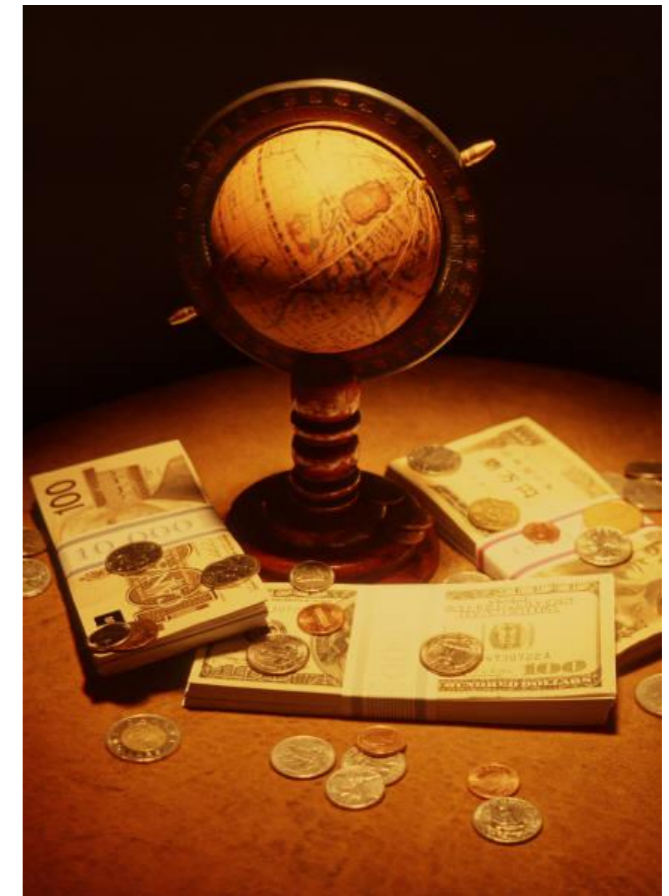


%



Our preference (probably)

- Interest on capital – allows borrowing & compensates for unequal current accounts
- Rate for job
- Performance pool
- Dividend
- Possibly departmental/geographic pool



Rate for the job

- Fixed prior share
- "Rate for the job"?
- Equal or shades of difference?
- Mechanism for allocation - remuneration committee?
- Tends to be longer term
- Less volatile
- Frequency of change



Performance pool

- % of profits - 10%?
- Sufficient to motivate but not too much to demotivate
- Appraisal & mechanism
- lack of just as divisive
- SMART objectives at start of period - able to influence
- Self appraisal
- Peer appraisal
- Remuneration committee



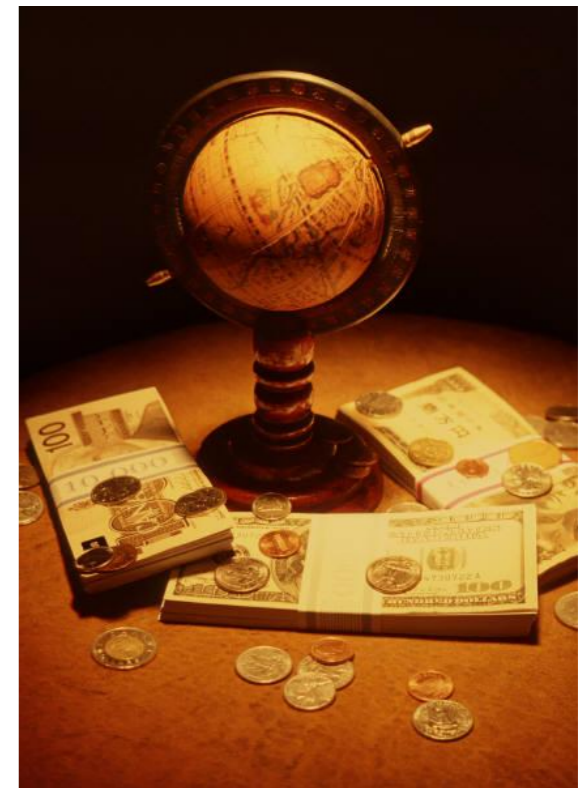
Dividend

- Based on "points"
- Less divisive than % shares
- Simpler as you grow
- Need to control points in issue
- Length of time to parity
- Phasing on retirement
- Starting point 50 to 100 points? - lockstep (modified)
- More profit – longer period
- Partnership issue



Drawings policy

- Vitally important in this climate
- Interest on capital gross monthly
- Base salary less tax monthly
- Retain tax in partnership – quasi capital BUT partner at risk
- Performance pool & dividend
 - Payable when calculated
 - Less tax
 - Probably post year end on signature of accounts
- Other amounts as an absolute exception



Capital structures



Our view

- Agree value
- Split between "Fixed" and "Current"
- Partner current accounts to be freely withdrawable
- Fixed capital should equate to ownership and dividend
- Distinguish capital ownership from profit sharing
- Excessive balances unhealthy
- Gearing a philosophical issue
- Provision of capital a fundamental condition of partnership
- Level of partner capital relatively academic if able to borrow
- Total level in hands of “remuneration committee” ?



Points system - example

	Yr 1	Yr 2	Yr 3	Yr4	Yr5
Partner 1	100	100	100	100	100
Partner 2	60	70	80	90	100
Partner 3	100	90	80	70	60
Partner 4	0	0	50	60	70
	260	260	310	320	330

Performance management & SMART objectives



Objectives

- Grow the overall size of cake
- Reward
- Motivate & focus
- Support
- No perfect system – competing demands



SMART objectives – for reward

Specific

Measurable

Achievable

Realistic

Time-specific

Good & bad examples

- To improve personal effectiveness
- To increase personal billing from £200k to £225k in YE 31/3/20X5
- To improve market profile of the firm
- To issue 1 press release a month & have at least 50% published in the Daily Post in YE 31/3/20X5
- To become technically competent in xxxx new area
- To have no PII claims in YE 31/3/20X5



Reward

- Use SMART objectives
- Set in advance of forecast period
- Allocate specific amounts to each area
- Issues
 - Finance
 - HR
 - Technical competence
 - IT/systems & procedures
 - General management
- Focus
 - Personal
 - Department/office
 - Firm



Motivate & focus – softer issues

- Probably no money on this area
- Personal skills
- Training
- Involvement in firm wide objective setting
- Obtaining buy-in



Support

- Role of appraisal
 - SMART objectives
 - Support
- Mentor – especially new partners
- Culture – avoid blame
- Freedom to make mistakes
- Personal development
- Confidential counselling
- Dependant on management style and skills



Unintended consequences

- Unhealthy competition & rivalry
- Disputes over the “numbers”
- Disputes over reason for work gains
- Game playing
- No cross selling
- Management time on internal disputes
- Demotivation



Overview re performance related reward

- Are the gains worth the “hassle”???
- If > 10 partners probably
- If < 10 partners probably not
- BUT you decide



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