A GUIDE TO OWNERSHIP TRANSITION

Where do you begin in bringing new owners/partners into your company? This tool offers some over-arching considerations. It also describes recommended criteria for choosing your next generation of owners and leaders.

- Most stock programs that involve bringing in new partners also involve leadership transitions as well – it is imperative that new owners receive training so they can be effective in their roles as leaders.
- New owners should have the opportunity to expand their management roles as well – so that people see them as having greater authority over the direction of the firm.
- In advance, the current owners need to bring new owners – or prospective owners – into the firm's decision-making process.
- Ownership does not necessarily mean management. The Board of Directors should be elected to make decisions. The chief executive should still be selected by the Board, not by all owners.

Here are some characteristics to look for in the next generation of leaders:

INNATE	LEARNED
Leadership skills	Strong technical competence
Respect for colleagues and clients	Project management skills
Passion for their work	General business savvy
Decision maker	Marketing abilities (potential rainmakers)
Strong work ethic	Financial sophistication
Good attitude	
Idea generator	
Entrepreneurial, practice builder	
Accepts responsibilities and challenges	
Puts the firm above themselves	
People skills (internal and external)	
Self-motivation	
Team player	

Additional specific criteria that principals should match:

Leadership:
- Lead by example.
- Serve as champion for the firm, internally and externally.
- Demonstrate business savvy and entrepreneurial thinking.
- Identify protégés and develop their skills (mentoring).
- Show ambition by developing new clients, new business lines, specific business-building activities.

- Display a strong work ethic.
- Intervene in situations to protect the firm's overall business, professional goals and image to clients.
- Practice and enforce collaborative behavior and the ability to manage decisions effectively.
- Establish appropriate standards and expectations for professional performance.
- Participate in general firm management activities such as business planning, financial review, and major decision making.
- Participate in long-term planning and develop specific quantifiable goals/objectives for your area of responsibility.

Operations:
- Manage projects' operational delivery process and profitability.
- Ensure effective, timely project delivery, technical processes, and resource allocation and utilization.
- Forecast staffing and related resource needs.
- Accept accountability for group performance.
- Participate in reviewing job performance and determining salary increases for team members.
- Oversee hiring/firing of team members.
- Exercise strict quality control at all levels of project implementation and ensure clients receive a quality product.
- Review the development, maintenance, and enforcement of essential operating/practice standards.
- Interact successfully with clients and employees at all levels.
- Understand legal and economic aspects of the market sector practice, particularly for professional service contracts, pricing, and negotiations.

Marketing:
- Serve as articulate representative of the company in selected market sectors.
- Spearhead the marketing effort for selected market sectors.
- Develop and nurture important client relationships.
- Know about the other service providers in the market sectors, both as competitors and potential strategic partners.
- Display a selling attitude.
- Practice lead development and sales marketing.
- Participate in maintenance, replacement, and new growth marketing.

Other:
- Build trust and confidentiality among the firm's owners and Board of Directors.

Structuring the deal:
- Current owners sell directly to the next tier of owners.
- Deal is set up as a direct cross purchase.
- By selling shares as a direct cross purchase, current owners will recognize capital gains on their investment and receive installment sales treatment at a favorable capital gains rate.
- In phase two: Current owners continue to sell down in accordance with retirement timelines.

Buy-in terms:

- 10-20% down payment.
- Promissory note terms of five years or more financed by current owners.
- Attractive market interest rates, e.g. prime plus 1%.
- Purchases are funded through potential additional compensation (earned by increased management responsibility), return on investment, and performance bonuses.
- Monthly payments should be handled through payroll deduction.
- Indemnification agreement between owners handles proportion of risk related to any guarantees on loans, etc. Company risk should be allocated in proportion to ownership.

For example:

Stock purchase (5% of total equity):	$58,000
Down payment	$5,800
Amount financed	$52,200
Note terms	6.5% for five years

Total payments – Year One	Annual	Monthly
Principal payment	$9,132	$761
Interest payment	$3,124	$260
Total	$12,256	$1,021

Implementation Steps:

- Discuss ownership and leadership opportunities with future partners.
- Distinguish between ownership and leadership (e.g. being an owner does not automatically mean you are a Board member or an officer of the company).
- Set criteria, benchmarks for becoming a partner.
- Create and implement a new valuation formula.
- Draft buy-sell agreement (include favorable terms for stock buybacks; reduce value of shares if employee leaves and competes via non-solicitation agreement).
- Hire tax counsel to discuss tax implications of ownership with potential buyers.
- Structure the deal (who are you selling to, how much, over what period of time).
- Determine how the repurchases will be financed (internal vs. external financing).
- Implement compensation changes to cover a portion of the cost of shares.
- Complete the transaction and sign the appropriate documents.
- Provide training as needed to new partners.
- Change the corporate governance documents as needed.