Council of Firms Knowledge Community

July 9 Meeting Notes
Topic: Ownership Transition/Governance

As with most of our discussions, this topic ranged in complexity and strategy across all of the firms represented in the room.

A common theme throughout July's Council of Firms meeting was employee ownership, from ESOPs (Employee Stock Ownership Plans) where everyone owns a portion of the company, to ownership benefits as shareholders and directors. So, while our topic was officially "Ownership Transitions/Governance," we also discussed various strategies for employee engagement and the importance of each employee having a stake in the profitability of the firm.

GOVERNANCE
Many of the firms present at the meeting have a Board of Directors (ranging from 5 to 9 people); most directors are internal to the firm; some firms have external advisors on their board – including former clients, retired firm principals, or trusted business partners. Whether or not the firm is governed by a Board of Directors, partners/principals/firm leaders are guiding the strategic direction of the firm. The length of time for board members to serve varies among the firms. Some board Presidents or CEOs serve unlimited terms, while directors could be voted in for 1- 2- or 3-year terms.

Most in the room agree that a healthy Board of Directors has rotating terms to maintain a fresh and broad perspective on the firm.

OWNERSHIP
Larger firms have ownership by appointment or promotion to shareholder – the titles vary in meaning across firms, but typically they include associate, senior associate, associate vice-president and vice-president. At some firms, the associate and senior associate titles are not shareholders, but holding those titles indicates that an individual is on the path to becoming a shareholder.

Some firms have a requirement to buy into a shareholder position, and the cost for ownership varies across the firms. Shareholders will typically benefit from the company's profits through bonuses and distribution of additional shares annually. Some firms will assist with financing the purchase of shares initially. Most firms have a limit that no one can own more than a certain percentage of the shares (in our discussion, the range was from 17% to 51%); some firms have a requirement to start selling shares back at a pre-determined rate when you reach a certain age.

Many firms have ESOP plans, where everyone is a shareholder. Under the ESOP, firms typically distribute profits annually to all employees. Vesting periods range from zero to three years.

Larger firms talked about mapping out plans for staff replacement and client transitions to ease the stress of upcoming retirements. It has not been as simple for first-generation principals and firm owners of privately held companies. These transitions can take over a decade to strategically plan and complete, and the firm owners want to ensure the success of the company and their firm's legacy as they step down. One firm has transitioned to a small leadership team, where each leader brings a skill or interest that is complementary to the other leaders' skills.

Many firms mentioned hiring outside experts and making use of industry resources like PSMJ, to assist with ownership transition strategy.

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