MAKING THE PARTNERSHIP MOVE
WHAT YOU NEED TO KNOW

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Being offered an equity partnership is recognition of your ability to deliver great work, meet client demands and hit your billing targets. It's also the reward for the untold hours you've invested in gaining professional qualifications and the sacrifices made for your career by you and your family.

The opportunity to become a part-owner in the firm for which you work is also an indication that the partners see the potential for growth and rising profits. Existing partners wouldn't dilute their equity by admitting new partners if they didn't believe that people like you can help them continue that success.

Accountancy Daily's 2022 accountancy firm survey[1] confirms that the sector is strong and growing. There's a 6.4% average growth across the industry and the top 75 firms alone generated a record £18.87bn over the previous 12 months.

The survey also shows there is a growth in diversity with more opportunities opening up to a wider demographic. There's been a 9% increase in female partners over the last 12 months, now representing 20% of total partners. Similarly, although not all firms report on the ethnic diversity of their partners, the number of BAME (Black, Asian and Minority Ethnic) partners has also continued to rise, reaching 472. This is an increase of 20% of BAME partners, which indicates a growing diversity in the sector.

1 Top 75 Firms Survey 2022: revenue hits record £18.87bn
https://www.accountancydaily.co/top-75-firms-survey-2022-revenue-hits-record-ps1887bn

KNOW THE STRUCTURE

So, when you receive an offer to become an equity holding partner what things do you need to consider? Throughout this guide we look at what is involved in becoming a partner and the steps involved. Every firm has a specific partnership model to meet its business need, retain great talent and reflect its ethos and culture.

The most common partner structures are:

- Salaried partner – where you remain as a salaried employee and unlikely to need to invest capital in the firm. You will have extra responsibilities although, as you hold no equity you have no say in any decision making concerning the firm.

- Fixed-share equity partner – it's likely to mean becoming self-employed with a small amount of capital invested in the firm giving you limited voting rights. You will also receive a pre-determined share of the firm's profits.

- Full-equity partner – fully self-employed, you'll have a higher level of investment in the firm meaning your income comes from receiving a percentage of the firm's profits. You have full voting rights.

In a multi-tiered partnership structure, the differences are predominately internal and involve different legal, financial and practical responsibilities. To the outside world you are a partner.

EASING THE MOVE

The timing of the partnership offer is dependent on the firm's approach to identifying partners, their experience, track record and length of service. Some firms are less rigid and consider an individual's track record rather than time served.

The offer of an elevation to partner is likely to have come after you have worked for a period in a senior role such as a director. You will have demonstrated good work at that level; an ability to offer good counsel; to be a strong fee earner; gained the respect of existing and prospective clients; and have a strong network of potential business referrers, such as lawyers, and bank relationship managers. A well-organised firm will have in place a programme to support you in developing the range of skills you will need to progress to become an effective member of the senior management team.

Be under no illusion the move will be demanding, stressful and fraught with uncertainty. For that reason, it is important in the initial conversations about becoming a partner to ask:

- What support does a new partner receive?

- Will there be a mentor to help in the transition?

- Are there further training opportunities particularly for tasks where you may not have had much practical experience?

- Role and responsibilities that you are required to carry out.

It may be appropriate to consider taking a leadership programme, such as those offered by the ICAEW. Programmes like this will help you gain a deeper understanding about what it means to be a partner and understand more about the interpersonal, leadership and commercial skills you need.

NEW ROLES

Your roles and responsibilities will change as a partner and you may have to shift your day-to-day priorities. The key tasks a partner is expected to carry out include:

- Building new and existing client relationships
- Seeking out and winning new work
- Developing business strategy
- Mentoring and developing staff

As a senior manager you would probably spend 80% of your time doing client/project work and 20% selling services and other roles, while as a director the emphasis is more 50/50. A partner is about 20% 'doing' and 80% on finding new business, fulfilling financial targets and delivering on other tasks.

Additionally, depending on how the firm is structured, you may have to take on responsibilities for other business functions such as marketing, IT or HR.

It does take some time to adjust and brings personal and professional risks and rewards. Inevitably there will be longer hours and potential difficulties in maintaining a strong work/life balance which can impact on those closest to you.

CHANGING PERSONAL FINANCES

One of the biggest challenges is the shift to being self-employed and away from the security and benefits of receiving a salary.
In the first few years, a new partner's drawings schedule will mean you will probably earn less than when you were an employee. This can be a personal strain if you have existing commitments such as a mortgage or family to support. The important question in these circumstances is what is your earning potential?

According to Payscale[2], the salary database, during the first four years of being a partner the average package is around £75,000, while an experienced partner with 20+ years of experience earns an average compensation of £107,000.

You need to be aware that the early years as an equity partner may prove financially challenging with having to adjust to not receiving a predictable monthly salary. At the same time, unless you have access to personal or family funds, it is likely you will have taken out an equity loan with a specialist provider to provide the capital contribution you have made to join the partnership.

Instead of a salary you're likely to make drawings on account until the set date when the cash distribution of the profit share allocation is made to partners. These payments are made without tax or national insurance deducted.

It's not uncommon for a new equity partner's targets to be linked to a points system, to entitle them to receive an increasing share of the profits. This system may mean drawing less than more established senior partners.

After a couple of years, you should reach the full earning potential which will be in excess of your earnings as an employee. However, it is also important to remember that drawings can be less than expected if the firm has a challenging year or there are cash flow issues.

The regulatory authorities are alert and are not afraid to impose financial or legal sanctions against firms and individual partners. Be mindful of this because any wrongdoing, however innocent, can have implications for your reputation and ability to practice.

TRANSITION TO PARTNERSHIP

When the discussions about partnership and equity allocation become more granular get the full details laid out in writing and ensure they include:

- Full terms and conditions of the offer
- Outline of the capital contribution required and how it is paid
- Structure and payments of rewards and any other benefits
- Role and responsibilities that you are required to carry out

2 Average Partner - Accounting Firm Salary in United Kingdom
www.payscale.com/research/UK/Job=Partner_-_Accounting_Firm/Salary

Then consider the pros and cons and ask for clarification if you feel there are any gaps or questions. It's also important to carry out your own due diligence to get a true picture of the business. You should:

► Ask for at least the last three years accounts to see what profit the business makes and identify your likely drawings as part of the profit share.

► Request the monthly management accounts for this financial year and to see any forecasts that have been prepared for the next 12, 24 and 36 months.

► Understand the return on capital employed and the total salary costs. Ask what proportion of revenues and fees these represent and be aware of non-salary overheads such as loans, lease and rental agreements etc.

► Review the partnership agreement or deed to understand more about the relationship between partners and matters including duties, responsibilities and dispute resolution; decision making processes and dispute settlement; holiday and sick pay entitlements for partners.

► Check profit share allocations and what it means for your drawings. This can be compared with past performance to gauge the accuracy of the figures presented.

► Have one-to-ones with partners you know, and those you don't know so well, to ensure the personal and professional dynamics fit with your own views and aspirations.

► Be clear about the management structure of the firm and whether all partners are involved in key business decisions. If certain roles are delegated, either to management boards or groupings of partners, who takes responsibility, and do they report to an all-partner board.

► Investigate what additional responsibilities you will be expected to undertake.

► Understand the policy on the resignation, retirement or the expulsion of a partner.

► Ascertain what the pension arrangements are as you will no longer be eligible for the employee scheme. Does the firm have a partners' pension scheme or are you responsible for your own?

► Discover how capital contributions are structured. Does it all have to be paid on entry; is an agreed sum paid and then capital increased by reduced drawings; and do contributions required increase with seniority?

► Know the firm's and personal responsibilities for indemnity insurance and ensure you are covered in the case of claims against you or the firm.

RISK AND REWARD

As part of your due diligence, understand the personal risks you are taking on. With a traditional partnership, as a full member you are personally responsible should the firm became insolvent or if a claim exceeds funds. This could put your own assets at risk. Some firms have become a limited liability partnership or limited company to reduce the exposure to the amount you have invested in the firm. Even in this structure there could be added responsibilities if, for example, you had made a personal guarantee or taken funds from the business when you knew it was in difficulty.

When you have all the information, consider engaging with advisers who understand professional services partnerships, their agreements, finance and accounts.

Their advice will help guide you around any pitfalls which can catch out the unwary and can be a good barometer as to whether the suggested capital contribution represents good value - and is commensurate with the firm's size and the needs of the business.

SEEKING EQUITY LOAN FINANCE

Shire Professional Funding has an excellent reputation in the professional services industry. You will be assigned a dedicated account manager who understands the issues and challenges you face and can support you at every step to achieve your career goals.

Partnership loans from £25,000 to circa £500,000 are available with flexible payment terms spread over a term of up to 7 years. The loan can even be repaid earlier if circumstances permit.

Once you have the financial requirements sorted out, you can look forward to embarking on the next stage of your career, playing a part in developing and growing a business in which you are part-owner.

To find out more:
01827 300 090 (Mon-Thu 8.30am - 5.00pm; Fri 8.30am - 3.30pm)
www.shirepf.co.uk/campaigns/partner-equity-loans-for-accountants/

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