



Effective Partnerships in the Consulting Business

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Effective Partnerships in the Consulting Business

- Partnership – What does it mean?

Partnerships are formal or informal arrangements to work together for some joint purpose.



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Successful Partnerships Require:

- Accountability
- Action plan
- Business planning
- Commitment
- Trust



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- **Accountability**

Knowing who is answerable to whom.

- **Action plan**

What do we do next?

Who does it?

With what resources?

- **Business planning**

Business plan should cover at least three years and show how income earned from projects covers the core costs and generate profitability.



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- **Commitment**

The centre line of partnership is gaining commitment. It depends on developing a shared vision, and some ownership of the ideas which are to be put into practice.

- **Trust**

Trust is an essential foundation for all aspects of participation and partnership. It comes from working together.



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■ **Barriers in Partnerships**

- One partner manipulates or dominates.
- Differences of philosophy and ways of working.
- Lack of communication.
- Unequal and unacceptable balance of power and control.
- Hidden or incompatible agendas.



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Facts about Ownership Transition

It is a known fact that less than one third of businesses survive the transition from first to second generation ownership. Of those that do, about half do not survive the transition from second to third generation ownership.

Survival and growth clearly depends on the correct choice of business ownership structure. Most consulting businesses become family owned companies from a sole proprietorship firm.



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- **Ownership Structures**
 - General Partnership
 - Limited Partnership
 - Limited Liability Company (LLC)
 - Corporation

General Partnerships

A general partnership involves two or more owners. General partners share equal rights and responsibilities in connection with management of the business, and any individual partner can bind the entire group to a legal obligation. Each individual partner assumes full responsibility for all of the business's debts and obligations.



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Limited Partnerships

A limited partnership allows each partner to restrict his or her personal liability to the amount of his or her business investment. Not every partner can benefit from this limitation -- at least one participant must accept general partnership status, exposing himself or herself to full personal liability for the business's debts and obligations. The general partner retains the right to control the business, while the limited partner(s) do(es) not participate in management decisions. Both general and limited partners benefit from business profits.



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Limited Liability Company LLC

A limited liability company, commonly called an "LLC," is a business structure that combines the pass-through taxation of a partnership with the limited liability of a corporation.

LLC provides limited personal liability for business debts and claims. But when it comes to taxes, LLC are more like partnerships: The owners of an LLC pay taxes on their shares of the business income on their personal tax returns. The LLC itself is not a separate taxable entity.



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Corporation

- A corporation is an independent legal and tax entity, separate from the people who own, control and manage it. Because of this separate status, the owners of a corporation do not use their personal tax returns to pay tax on corporate profits -- the corporation itself pays these taxes. Owners pay personal income tax only on money they draw from the corporation in the form of salaries, bonuses, and dividends.



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■ **Why Form a Corporation?**

PROS

■ **Owner Protection from Legal Liability**

The owner(s) have a limited amount of legal liability for the corporation's business activities and debts, because in the eyes of the law the corporation is a separate entity

■ **Ability to Attract Investors**

The corporation's ability to issue stock is a strong selling point to those willing to invest capital in a business venture.

■ **Power Structure**

The corporate business has an established power and management structure: directors, officers, and shareholders.

■ **Stock Options for Employees**

The corporate business structure offers an appealing opportunity to potential employees as stock options.



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CONS

- **Time and Cost of Incorporation.**

The incorporation process can be expensive and time-consuming. A number of documents must be prepared, including the articles of incorporation and bylaws.

- **Following Corporate Formalities**

All corporations are required by law to observe a number of corporate formalities, to ensure that the corporation is operating as a separate entity, independent of the business's owners, e.g. annual meeting.

- **Potential Tax Liability**

Profits from traditional corporations may be "double taxed." The corporation is taxed for any profits earned, and any individual stockholder who earned profits from the corporation in the form of dividends are also taxed.

Power & Management Structure

- **Corporate Structure**
- **Corporate Officers**
- **Shareholders**

Corporate Structure

Directors

- One of the first steps a new corporation will take is to name the members of its board of directors. Directors are typically elected by shareholders at the annual general meeting.
- The number of directors serving on a corporation's board usually depends on the size of the business. For voting purposes, a corporation should keep an odd number (3, 5, 7, etc.) of directors on its board.



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Corporate Officers

The corporation officers oversee the daily operations, and in their different roles they are given legal authority to act on the corporation's behalf in almost all lawful business-related activities.

- **Chief Executive Officer (CEO)** or President. The CEO has ultimate responsibility for the corporation's activities, and signs off on contracts and other legally-binding action on behalf of the corporation. The CEO reports to the corporation's board of directors.
- **Chief Operating Officer (COO)**. Manages the corporation's day-to-day affairs, the COO usually reports directly to the CEO.
- **Chief Financial Officer (CFO)** or Treasurer. The CFO is responsible for all of the corporation's financial matters.
- **Secretary**. The corporation's Secretary is in charge of maintaining and keeping corporation's records, documents, and "minutes" from shareholder meetings.

Shareholders

- Shareholders have ownership interest in the company, by having money invested in the corporation. A share is part of the ownership interest in the corporation.
- Corporations are usually required by law to hold annual shareholder meetings, at which the shareholders will elect the corporation's directors



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Planning for Changes in Corporate Ownership



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Shareholder Buyout Agreements

Buyout, or buy-sell, agreements are often overlooked. This can be a costly mistake: Without a buyout agreement, if a shareholder wants to leave the company, there's no contract that says whether the remaining shareholders or the corporation must buy him out, or for how much.

By creating a buyout agreement, the owners of a privately held corporation can be prepared when a shareholder wants to be bought out, or worse, dies, goes bankrupt, or gets divorced.



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Buyout agreement controls the following decisions:

- A departing shareholder must be bought out
- Who can buy a departing shareholder's stock
- What price will be paid for a shareholder's interest in the corporation
- what other events will trigger a buyout.

It may help to think of a buyout agreement as a sort of "premarital agreement" between shareholders & co-owners: It determines what will happen if your corporation's owners decide not to stay together 'til death do they part. If your happy union doesn't last, the buyout agreement spells out, in advance, what will happen to the business you own together.

What Events Should Be Covered in a Buyout Agreement?

- Retirement or resignation of a shareholder
- An attractive offer from an outsider to purchase a shareholder's interest in the corporation
- Divorce settlement in which a shareholder's ex-spouse stands to receive all or part of a shareholder's stock of the corporation
- Foreclosure of a debt secured by a shareholder's stock
- Personal bankruptcy of a shareholder
- Disability, death, or incapacity of a shareholder.



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Why You Need a Buyout Agreement

- It is a huge mistake to ignore the fact that sooner or later your business will change. Chances are, one of your founding co-owners will eventually want to leave the company (and take his investment with him) before the rest of the shareholders are ready to call it quits. Without a buyout agreement, the company might be automatically dissolved when one member leaves, forcing the assets to be sold and divided among the members. If the other members wish to continue the business, there are no rules determining in advance whether and how departing members will be bought out -- or for how much. This can lead to serious personal and business discord -- perhaps even court battles and the loss of the business.
- A buyout agreement puts limits on who can buy shares in the corporation. Otherwise, you could be forced to share control of the company with someone you'd rather not run a business with.
- To avoid potential problems in the future, writing a buyout agreement has a very real immediate benefit: It will force you and the other members of your ownership team to talk about your hopes and expectations for the business. This type of honest, open communication will put your company on the right track from the very start.

Holding Companies

- A holding company is a corporation that is organized for the purpose of owning stock in other corporations. A company may become a holding company by acquiring enough voting stock in another company to exercise control of its operations
- Holding companies whose subsidiaries engage in unrelated lines of business are called conglomerates.



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Subsidiary & Associate Companies

- When a holding company owns more than 50% of another company, that company is known as subsidiary companies.
- Similarly when a holding company owns 20-50% of another company, that company is known as an associate company.

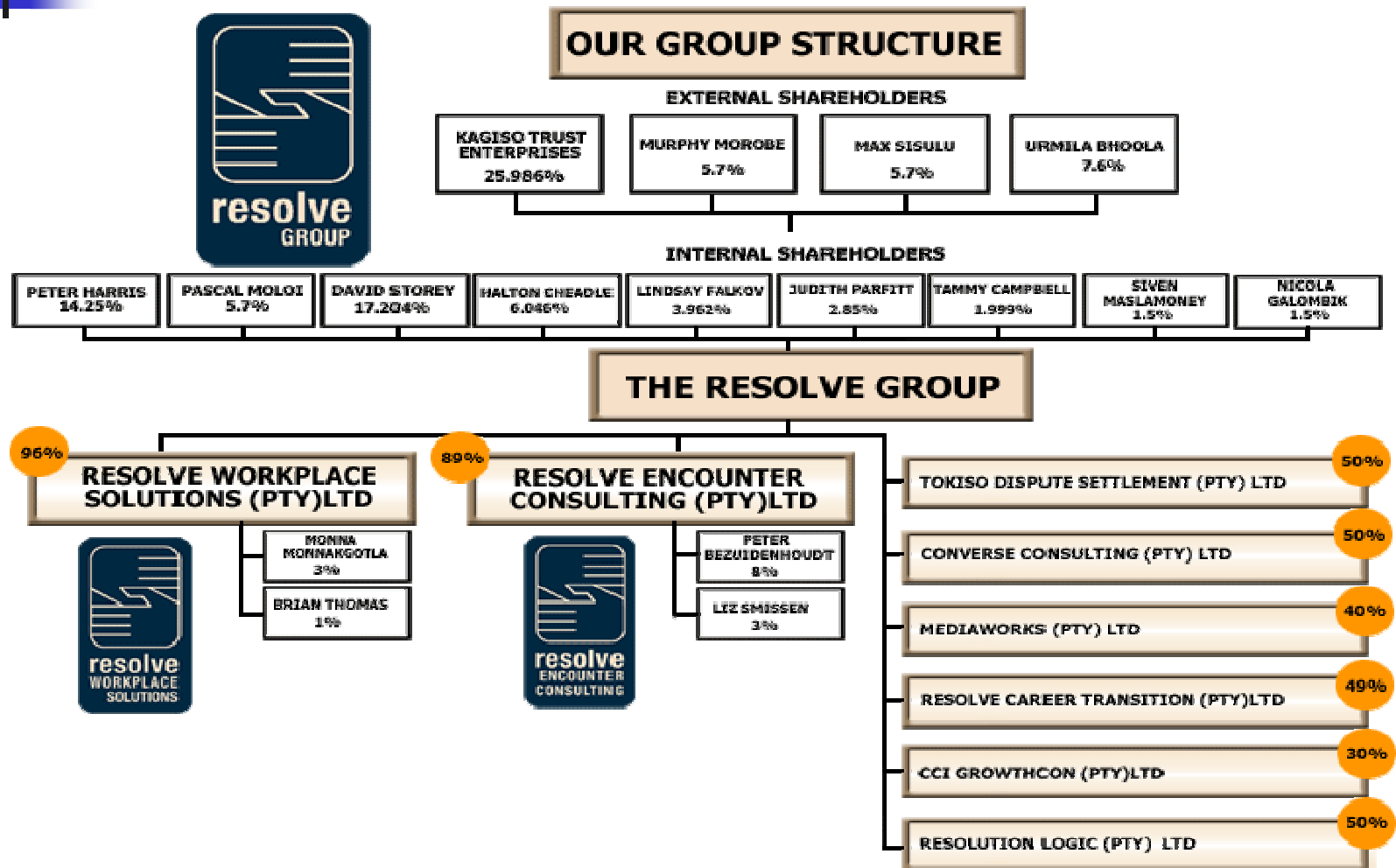


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When do we require a holding company?

- When a corporation wants to grow and expand its operations beyond their existing size and setup and maintain the limited business liability status for all its subsidiary or associate company operations.
- To capitalize on the total turnover and assets of all the companies held by the holding company to achieve strong financial standing and to be able to raise investments for future growth.

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SMEC – Snowy Mountains Engineering Corporation – is one of the world's leading engineering and development consultancies.

With 40 years' experience and more than 3,800 permanent and contract staff, SMEC delivers specialist consultancy services across a wide range of disciplines and plans, designs and manages projects to the highest professional standards.

SMEC is an Australian based company with an international network of more than 20 subsidiary and associated companies and offices in 25 countries.

SMEC operates through a number of different companies under SMEC Holdings Ltd. SMEC Australia Pty Ltd and SMEC International Pty Ltd were established to conduct SMEC's national and international operations respectively.



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Some other holding company setups

- Mott McDonald International Limited, UK
- ACE International, Lebanon