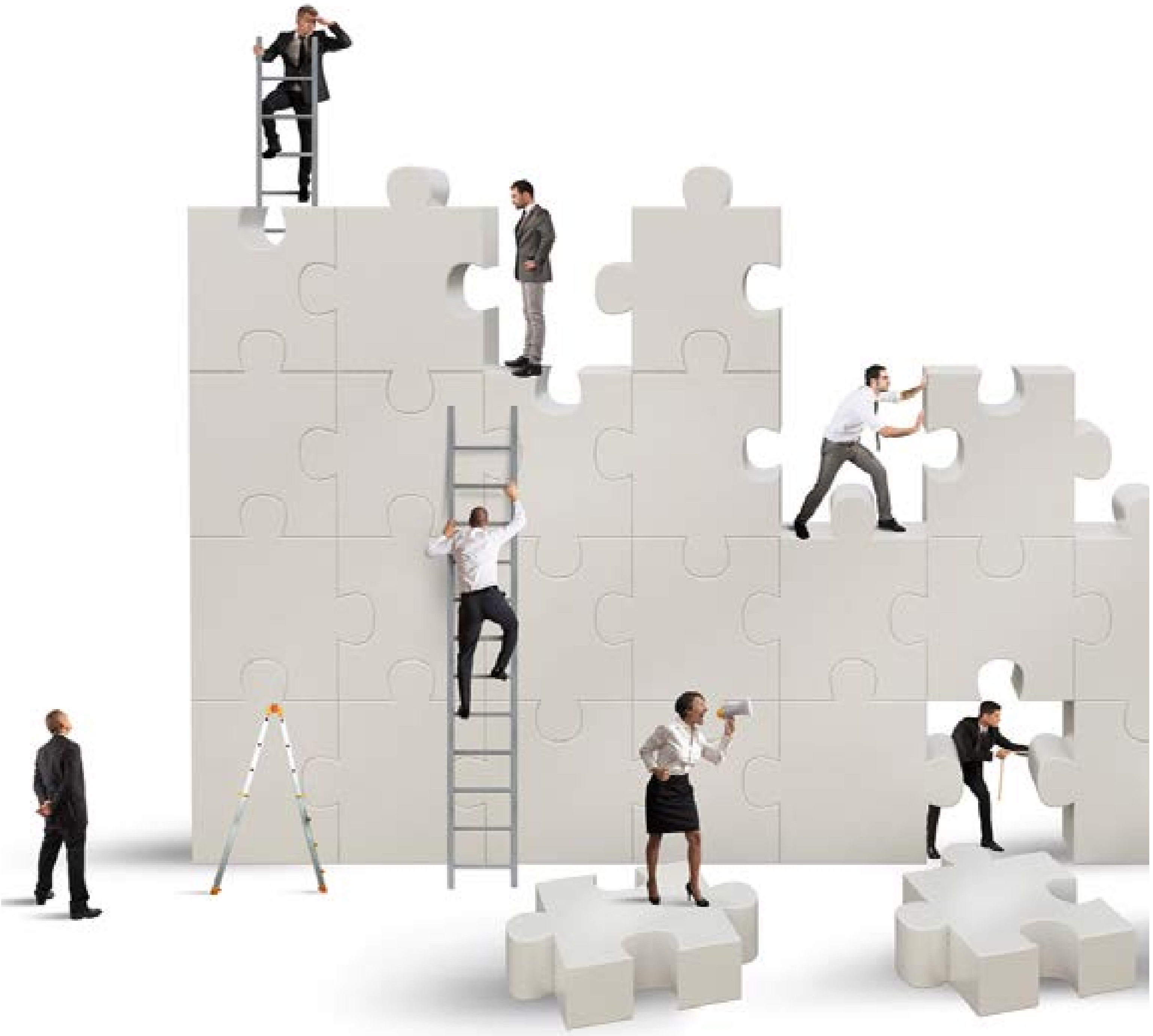
The benefits of a John Lewis type co-ownership model

"Moving to an all equity model helped staff at all levels of the firm find motivation not only through their own achievements, but the success of the firm"
Gareth Brahams, Managing Partner



When I agreed with my former firm that I could leave and take the team and most of our clients with me to form an employment law specialist firm, it seemed too good an opportunity to pass up - so why did I want the idea of co-ownership and employee engagement to be a central tenet of our culture? What do we do to give meaning to it? How has it worked out for us? And what does the future hold?

Why adopt a John Lewis model?

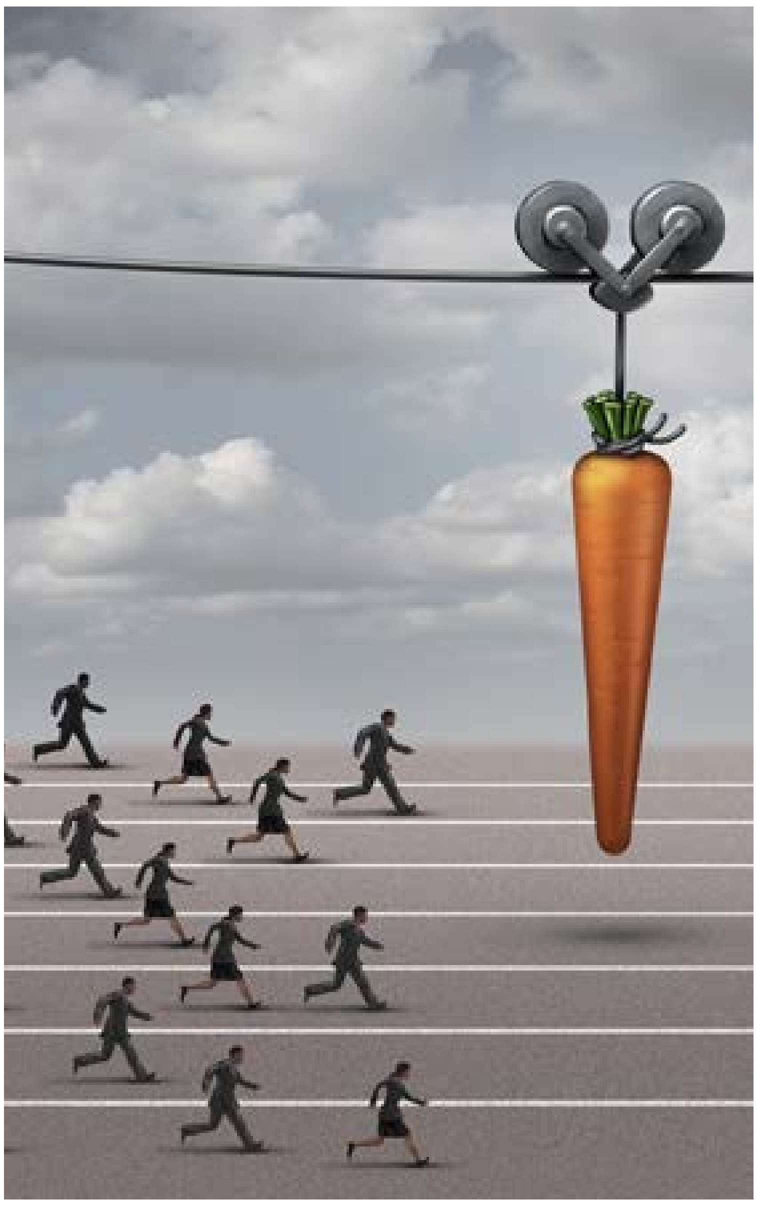
There are inevitably many parts of life experience that inform personal philosophy and outlook. In my case I could point to any number of influences: my father's commitment to Liberal politics; observing the school council on the kids' TV series Grange Hill and comparing it to the dictatorial nature of my school; learning about the centrality of hierarchy in law firms through studying the Critical Legal theorists at University to experiencing it myself on placements; working on a kibbutz; and, of course, hearing year on year why John Lewis outperformed its corporately structured opponents.

However, for me, the seminal moment occurred when I was an associate in a team of four partners and fourteen associates. The partners had left the office en masse to attend a pitch from which they hoped to return laden with a million-pound instruction. With all the cats away, the mice played, and I recall we all were desperate for them to lose the pitch. We were quite busy enough, thank you; there was no financial or other incentive for us to have to take on another huge project and if we had a view on whether we wanted the partners to earn seven times as much as we did because they won the pitch or six times as much because they didn't, you can probably guess that we would have preferred six! I remember thinking then, if I were ever to run a law firm, I would sure as hell not want my staff to feel that way.

Scroll forward a few years to 2010 and I had just left Lewis Silkin (which was not the firm I just referred to and had a delightfully collegiate culture). I had been a partner there for eight years and worked there for ten. I walked away from there to start an employment law department from scratch at Stewarts Law LLP. I had no team and only a handful of clients, but I was joining a firm that had fabulous infrastructure (beautiful offices, efficient support services, great IT) and its own reputation and culture.

To find myself only two and half years later in 2012 forming a law firm from scratch on one level seemed less daunting. I had the clients and the team but what I did not have was the infrastructure or frankly the same kind of cash, and the culture was a clean sheet of paper.

In that situation, I did what I always do which was go and talk to as many people as possible. It transpires that whether you seek accountancy or legal or any other form of advice when starting a law firm, advisers actually turn into psychotherapists and the answer to just about every question gets turned back into another question for you, "What kind of culture are you seeking to create? What do you want?" For me, the answer was I wanted an arrangement where everybody from the most junior administration assistant to the managing partner were motivated not by their own success but by the firm's collective achievement. I wanted people to work with me, not for me. I hit on the 'John Lewis model'.



How have we given meaning to the John Lewis model?

The other founders of BDBF were my then partner at Stewarts Law, Arpita Dutt, and two of the then associates, Alistair French and Ruth Badrick. They are great lawyers and deserved the badge of partner in their own right but for me it was more than that. Right from the off, I wanted them to feel that this was a new collaborative venture and a break from me being their boss.

This decision created some unexpected bonuses. First, we had more people contributing to the firm's working capital. Secondly, we had a lower employer's NI bill. Third, firms with four partners get professional indemnity insurance cheaper than firms with two partners. But by far the biggest benefit was the one that was intended: that there were four of us who owned the firm, fully motivated and committed to its success.

Of course, in a pure John Lewis model, all the other people who were joining us on day one (our office manager, a newly qualified solicitor, and a paralegal) would have been welcomed into the partnership as would any other joiners, in time. However, that was a bridge too far for us; not principally because it would have required us to set up as an alternative business structure and the complication at that time would have delayed our start date, but because the market recognises the badge of partnership as something that is earned, like managing director status in a bank or a barrister becoming a QC. But there is also more than that.

In a partnership such as ours, becoming a member of the LLP is as close to marriage as you can get in a business context. These people know what you earn, they have access to your bank account and they represent you. That responsibility in a law firm should be reserved to those who have shown themselves over time to be both worthy of the status technically and financially but also collegiate enough that you would want to be 'business married' to them.

So, instead I hit upon the idea that there should be an employee bonus pool made up of equity points and that each employee, like the partners, should receive a salary (equivalent to a fixed draw) and a fixed number of equity points out of the bonus pool (equivalent to a variable draw) which is reviewed each year. Unlike the partners, employees do not need to make a capital contribution, but on the down side for them, the employer's National Insurance contributions are funded out of the bonus pool.

I toyed with the idea of creating a corporate structure to take advantage of the Government's 'employee shareholder' scheme whereby employees forfeit certain employment rights for the benefit of receiving equity. However, I quickly dismissed that as I felt it would create scepticism as to the driving force behind wanting them to share in the ownership of the business. Moreover, some of the tax breaks would not work for us as we have no plan to sell the business.

Each month, when our accounts come out, I give a summary of our financial position (income, expenses, collections, write off, etc) and the value of an equity point if we carried on trading at that level through to the year end. The employee bonus pool is paid out in two instalments - 50 per cent on completion of the management accounts (with the payments made in the November payroll) with the remainder due (and adjusted) once the accounts have been audited. These tend to get paid in January - just in time to pay the credit card bill to cover the excesses of Christmas.

So, that was the financial side sorted but that is not, by itself, enough to achieve employee engagement.

We have team meetings every fortnight where any person working in the firm can put any item they wish on the agenda. Everyone attends and actively participates in our annual strategy day. There are some decisions where the staff rightly look to us for leadership or where the financial commitments are going to come exclusively from the partners. On those occasions - for example, the decision to move out of serviced premises and to take our own lease - we make the decision ourselves but communicate about it as much as we can. Moreover, we don't believe in pretending to consult when in fact the direction is pre-determined such as in that case. However, on pretty much everything else (should we hire a PSL? How should we use our office space? Should we get another printer?) we first discuss with the staff. They know when they suggest something that will cost money, it will hit them in the pocket in the same proportions as it will hit us, so they are as cautious about high expenditure as the partners - sometimes more so!

How has it worked for us?

Three years on from starting BDBF, aside from one paralegal, we have had no-one choose to leave the firm - and we are now up to ten qualified lawyers, two paralegals, and a three-person administration team. So, that is a good start.

The value of an equity point has ended up being worth way more than we had originally anticipated, so everyone is happy. I don't think that is unconnected to our model though. If everyone pulls in the same direction, this is what should happen.

To those who are sceptical about whether administrative staff need to be motivated in this way, let me tell you this story. The other day, a client was coming in to see me for a second time. I was just about to go down to the reception area to greet him when one of the admin team interrupted me to say that she had just noticed that he had not paid his last bill so she was going to meet him first, credit card machine in hand, before I went down to see him. I could be wrong, but I don't know of any other law firm where that would have happened and the fact that by not paying his bill he was taking money out of her pocket must have been a factor in driving that behaviour.

Initially, we found that in team and strategy meetings the partners were still talking too much. Whether that was because we were all brought up in a top-down law firm culture or because we are just loud-mouthed I don't know. However, we have put techniques in place to change that. All team meetings are now chaired by non-partners and they also had slots at the strategy day. It has not just been morale boosting to hear the voices of everyone in the firm but giving the team the power to influence their daily working environment has created something special - true collective capitalism from top to bottom.

The future

All this is not to say that we have got it all perfect or that the model will not have to adapt to ever-changing times. There are still some areas of non-alignment that could be addressed - the fact that non-partners don't contribute to working capital; the fact that employees get their variable distribution at fixed times whereas partners are subject to the whimsicality of cash flow; that employees suffer employer's NI on their profit shares and partners don't...but maybe that is OK?

Ultimately, even at John Lewis the CEO earns more than the shop floor worker. There will always be differences between the way that the most senior and junior people in the firm benefit from their involvement.

The aim was not communism but true collaboration, and this, we have, for the present, achieved. How we maintain this going forward is perhaps a subject for our next strategy day where everyone will have a genuine voice.

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