



## White Paper 3.0

*REVISIONS*

Revision	By	Date	Changes
1.0	Filippo Beretta Thomas Neal	11 JAN 09	Baseline.
1.01	Filippo Beretta	03 MAR 09	Updated naming of roles; Error correction.
2.00	Filippo Beretta	01 SEP 09	Material changes to all sections; Added sections on brand, treatment of capital accounts, governance.
2.02	Filippo Beretta	30 AUG 09	Error correction.
2.03	Filippo Beretta	31 AUG 09	Added footnote under Organization.
3.00	Filippo Beretta Thomas Neal	01 NOV 10	Major revision. Material changes to all sections.

*Top management at Digital Stuff Corporation hired MacLinsky to help them solve the problem.*

*MacLinsky did the old “bait and switch” trick, with a senior partner showing up only on the first day, then followed by hordes of fresh MBAs attending dozens of meetings, conducting interviews, etc. The process took a good six months and cost over \$2 million. The result was an inch-thick report, full of obscure diagrams, supposedly describing the problem and proposing a complex (and very impractical) solution.*

*The boss asked my opinion of the report. Forgetting my manners, I dared to say:*

*«The report from MacLinsky has some 40 convoluted diagrams in it. Since it cost us \$2 million, that’s roughly \$50,000 per diagram. May I suggest that, next time, we consider using that money to buy abstract art? Because it’d be equally useful, and then at least we’d have something of value to sell, when we go out of business.»*

A true story<sup>1</sup>.

Some believe that all professional services firms are just consultancies like MacLinsky.

We beg to differ.

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<sup>1</sup> It all happened in the early 1990s, thus perhaps things have changed since then... or perhaps they haven’t. Names have been altered (slightly) to protect the identity of the two companies, client and consultancy. One of the two is still an industry leader, the other is, in fact, no longer in business. Brownie points for figuring out which is which, and who they are.

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## 1. INTRODUCTION

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*«At most firms, consultants are expected to win their stripes on the job, so clients end up paying top dollars for consultants who don't know much about anything yet.»*

J. O'Shea and C. Madigan, "Dangerous Company"

Organizations of all sizes are increasingly tired of paying exorbitant fees to receive poor advice from young and bright, yet utterly inexperienced consultants. Carbon copies of a textbook cases, banal common sense, or canned inapplicable answers are of no use when facing today's tough business questions.

Yet expert advice is of more importance than ever for companies that wish survive and thrive in times of ongoing economic crisis, intense global competition, growing regulation, market uncertainty, and unrelenting consumer appetite for innovation. Clients all over the world seek trusted advisors who possess relevant domain experience, who can provide the right answer, and who will commit to deliver flawless execution, all at the right price.

Many independent professionals – solo freelancers with relevant track records in management or entrepreneurship – have answered the call and put their experience, knowledge, and demonstrated ability to deliver at the service of their clients. Daring to sail under their own flag, and unburdened by the patrician overhead of old-school consultancies, freelancers can offer great service at honest prices. They often win business away from big firms, even in the face of their ruthless competition. We salute their courage, and rejoice their achievements.

However, we also see the inherent limitations of the freelancer model. The growing complexity and speed of modern transnational businesses (read: any business) are not easily addressed by dispersed, disconnected individual freelancers nor by small local networks. The global reach and fast pace of the twenty-first century economy demand a disruptive new model for professional services: a model that is inherently multi-local, multi-disciplinary, and fast, as superior to models born in the 1970s as mobile broadband networks are superior to then-indispensable fax machine.

This white paper is the foundational document of Motu Novu, a fundamentally new and radically different approach to professional services. They consult, we deliver. Read on.

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## 2. CONCEPT AND BRAND

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Motu Novu is the leading international federation of independent professionals: entrepreneurs, executives, strategists, marketers, and other business minds. Motu Novu is a business catalyst: we work with our clients to conceptualize, evaluate, refine, execute, and monetize business ideas. We are independent, contrarian, cosmopolitan, visionary, and pragmatic.

Our federation accepts extraordinary business minds from any walk of life, ethnicity, and culture. Instead of relying on standardization<sup>2</sup> to command and control an army of like-minded drones, we celebrate intellectual diversity and the creativity it fosters. In a world without borders, we are inherently cosmopolitan: business may take us anywhere, for us it will be home. We value strategic thinking, but never forget that execution is what truly matters: even the longest journey begins with one step.

Motu Novu serves dynamic, ambitious, and innovative companies, institutions, and entrepreneurs who wish to ensure the success of their initiatives, products, and services. We work with clients who want results, not slide decks. We are not for everyone: we favor clients who seek and value domain experience, demand prompt and precise execution, and are strong enough to accept candid earnestness.

Our federation is able to deliver results unlike any consulting firm because of our people: we have global and multidisciplinary resumes and have collectively accumulated unparalleled experience in starting and managing businesses, across most major industries and geographies. When it comes to business issues, we have been there and have done it, and we have a track record to prove it.

Motu Novu is built on three core values, the cornerstones of our promise to our clients:

- **Execution.** We approach all problems with a strategic mindset and value creativity, sound research, and well-tested frameworks. However, our constant focus is on execution, not theory: pretty models and “insight” are irrelevant, unless one can deliver tangible results.
- **Earnestness.** Instead of the traditional consulting practices of playing politics and pleasing egos, we are driven by an entrepreneurial zeal for getting things done. While our documents are short and polished, we always strive to impress with our results, not our slides.
- **Experience.** Execution and candor require experience as their prerequisite. By design, most of our professionals have 10+ years of experience. In any (business) conversation, there simply is no substitute for knowing what you’re talking about.

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<sup>2</sup> Additional brownie points for those who can guess which famous consulting company imposes, to all new hires, a “format” rulebook – a set of very strict rules on how a consultant must dress, walk, and talk, to be followed always and precisely, under penalty of abrupt interruption of a promising career.

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## 3. ORGANIZATION

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Motu Novu is a federation of independent professionals. The term “Professional” denotes all members of the federation, regardless of their seniority level (see “Professionals” *infra*). Professionals are independent agents who work with Motu Novu on a contract basis. This arrangement imposes no salary obligations on Motu Novu and no availability commitments on professionals: thus Motu Novu stays very flexible. To the joy of our clients, we can do what traditional consultancies usually can’t do: staff small and very experienced teams, and selectively accept contingent compensation.

At the core of our federation is a group of partners: dedicated professionals with a long-term, vested interest in the lasting success of Motu Novu. Compared to other professionals, partners enjoy some special benefits but are also burdened with additional responsibilities (see “Partners”, *infra*.) Any professional who has been with Motu Novu for at least 2 (two) years and who has generated positive marginality is eligible to become partner. Contrary to old consultancies, partnership at Motu Novu is not an exclusive privilege that allows exploitation of the work of others, but a commitment to build everyone’s success.

### 3.1. PROFESSIONALS

Every member of the Motu Novu federation is called a “professional”. Every professional has a seniority level, or “rank”, out of three possible ones:

1. **Junior Professional.** Jr. Professionals have 3+ years of experience and are normally assigned tasks such as research, analysis, drafting of deliverables, etc.
2. **Professional.** Professionals have 10+ years of experience and represent the majority of Motu Novu’s teams. They normally perform key tasks such as interviews, complex analyses and modeling, finalization of deliverables, client presentations, etc.
3. **Partners.** Partners have 10+ years of experience and a long-term commitment to the success of Motu Novu. They approve new assignments, manage client relationships, manage the work of professionals, and are ultimately responsible for Motu Novu’s performance. They also participate in the firm’s governance and economic results (see “Partners”, *infra*.)

All professionals who join Motu Novu (see “Affiliation”, *infra*) are carefully selected and screened (see “Affiliation”, *infra*) for their fit with Motu Novu’s core values (see “Concept and Brand”, *supra*) and for their demonstrated ability to deliver results to our clients.

Professionals are independent agents, and should not consider Motu Novu as their employer, but as a platform to be used to reach higher and to enhance their practices. Thanks to their membership in Motu Novu, professionals can leverage a recognized brand, a powerful set of tools (see “Services to Professionals”, *infra*) and, most importantly, a trusted network of extraordinary individuals.

Motu Novu does not require specific time or resource commitments from its professionals. However, Motu Novu also does not warrant that professionals will automatically receive any assignments or leads

upon affiliation. Professionals, based on their areas of expertise and inclinations, are instead encouraged to engage with the firm and with each other to develop their practice. Motu Novu routinely invites its professionals to partake in business development and company improvement initiatives. All professionals, regardless of rank, are encouraged to leverage these and any other opportunity to develop new business, and are rewarded with a commission for doing so (see “Sales Commissions”, *infra*).

When a new assignment opportunity is available, professionals are expected to actively collaborate with a Motu Novu partner to secure the business and facilitate project staffing. Once staffed, professionals must follow the directions of the account manager responsible for the assignment, adhere to Motu Novu’s guidelines on project management and administration, and use Motu Novu’s standard document formats for all assignment documents and deliverables.

### 3.1.1. *Recess of a Professional from the Federation*

Professionals can recede from the federation at any time with 30 (thirty) days notice. Professionals may also be asked by the Partnership Council (see “Governance”, *infra*) to discontinue their relationship with Motu Novu for grave motives. Should a professional decide to recede from our federation, any accrued compensation would remain payable in accordance to Motu Novu’s standard payment principles.

### 3.1.2. *Services to Professionals*

Motu Novu offers a variety of tools and services to its professionals, who are therefore free to focus on the most interesting (and lucrative) sides of their practice, instead of wasting time on support and administrative tasks. Many services are offered directly by Motu Novu and are complimentary, while other services are offered via partnerships and at low negotiated rates. Paid services can either be expensed on an assignment or paid directly by the professional using them.

**TABLE A. SERVICES TO PROFESSIONALS**

Complimentary Services	Negotiated Rate Services
Starter’s kit (business cards and supplies) IT systems (secure email, collaboration platform, website) IT helpdesk Document templates Contract templates Contract advisory	Access to share offices worldwide (through Regus) Specialized staff (research, copywriting, graphic design, translation services, administration support, etc.) Assignment insurance Tax advisory

Table A is for illustration purposes only. Service offering is subject to change at any time and without notice.



## 3.2. PARTNERS

Partners are a dedicated group of professionals with an even more significant vested interest in the lasting success of Motu Novu. Compared to other professionals, partners do enjoy some special benefits, but they are burdened with additional responsibilities. Contrary to old-school consultancies, partnership at Motu Novu is not an exclusive privilege empowering a few to exploit the work of many others, but as a commitment to build everyone's success. Any professional who has been with Motu Novu for at least 2 (two) years and who has generated positive marginality is eligible to become partner.

Partners are expected to build the firm's brand and gravitas by publicly endorsing Motu Novu and by actively promoting it with existing clients, with new prospects, with the media, etc. Partners are also expected to materially contribute to the development of the federation, by actively seeking and co-opting talented and reputed individuals, and by keeping existing professionals engaged and motivated.

While every professional is empowered and encouraged to develop new business, partners play a pivotal role in sales and account management. Only partners can approve and sign new contracts, and only partners can serve as assignment managers: a role that gives them full responsibility (through their capital accounts) on client development, account management, assignment planning, staffing, and delivery, as well as collections.

In exchange for their additional efforts and responsibility, partners receive a commission on the assignment they manage, and may receive dividends if Motu Novu is profitable (see "Compensation Model" and "Appendix A. Compensation Formulae", *infra*.) Partners also hold a capital account and participate in the firm's governance (see "Governance" *infra*).

### 3.2.1. Capital Accounts

Each partner holds a capital account, which determines the partner's fractional ownership of the firm and relative weight in the partnership council (see "Partnership Council", *infra*.) A partner's capital account is established when s/he is newly elected. New partners must fund their initial capital accounts with at least \$5,000 (five thousand dollars.)

Capital account balances are updated at the end of each fiscal year based on each partner's contribution to Motu Novu's performance for the year, as well as each partner's capital account balance at the beginning of the year (see formulae D1, D2, and D3 under "Appendix A. Compensation Formulae", *infra*.) Capital accounts may also be updated upon certain events (e.g. liquidity opportunity) or as a result of insufficient marginality of an assignment (see formulae M2a and M2im under "Appendix A. Compensation Formulae", *infra*.)

### 3.2.2. Recess of a Partner from the Federation

A partner may, at any time and with 90 (ninety) days notice, step down and return to the rank of professional or leave the federation. A partner might also be expelled by the federation for grave motives and with a qualified majority resolution of the Partnership Council (see “Governance”, *infra*.) Finally, a partner automatically recedes from the federation in the event of death or legal incapacitation.

**Recess.** A partner who unilaterally decides to step down or leave the federation is entitled to receive the balance of his/her capital account as lastly computed. The Managing Partner, upon recommendation of the Treasurer and in the best interest of the firm, may choose to pay the obligation in up to 5 (five) yearly installments<sup>3</sup>. Partners are not allowed to sell their interests in the firm, not even to other partners, unless the firm is sold as a whole (see “Liquidity”, *infra*.) If a partner wants to exit, s/he must recede. Recess does not automatically free the partner from his/her ongoing obligations, if any, as an assignment manager.

**Death or Incapacitation.** The successors in interest of a partner who dies or is declared legally incapacitated are entitled to receive the balance of the partner’s capital account as lastly computed. The Managing Partner, upon recommendation of the Treasurer and in the best interest of the firm, may choose to pay the obligation in up to 10 (ten) yearly installments<sup>4</sup>.

**Expulsion.** A partner who is expelled from the firm for grave causes is not entitled to their former capital account, which is instead charged against the expenses/losses incurred to expel the former partner; any residual balance is then pro-rated among the surviving partners, based on the value of their capital accounts as lastly computed.

**Liquidity.** In case of a liquidity event (i.e. trade/sale, IPO, or unwinding) each partner is entitled to a portion of the proceeds proportional to the value of his/her capital account computed as of the closing date of closing of the liquidity event.

## 3.3. FEDERATION DEVELOPMENT

### 3.3.1. Affiliation

New professionals are selected based on their attitude, experience, references, and determination to develop Motu Novu. Our affiliation process is very strict: all applicants are peer-reviewed for their business acumen, technical skills, and cultural fit with Motu Novu’s core principles. We don’t advertise membership in our federation, and we accept only the very best.

Affiliation with the Jr. Professional or Professional ranks requires endorsement of at least one partner, and can be vetoed by a majority resolution of the Partnership Council (see “Governance”, *infra*.) Affiliation with the Partner rank requires endorsement of at least two partners and a majority resolution of the Partnership Council (see “Governance”, *infra*.)

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<sup>3</sup> Equal payments due every year at the end of the year; interest equal to EURIBOR + 200bp.

<sup>4</sup> Equal payments due every year at the end of the year; interest equal to EURIBOR + 200bp.

All new members pay one-time membership fee to join Motu Novu, which is then refunded upon successful completion of their first assignment generating at least \$5,000 (five thousand dollars) margin for Motu Novu. The fee is \$175 (one hundred seventy five US dollars) for Jr. Professionals and \$675 (six hundred seventy five US dollars) for Professionals. New members who join directly as Partners are not required to pay the membership fee, but must instead fund their capital account (see “Partners”, supra.)

As a prerequisite for affiliation, new professionals are required to sign the “Professional Services and Confidentiality Agreement” (a.k.a. the “PSCA”), Motu Novu’s standard collaboration agreement. The PSCA establishes the basic legal framework for collaboration between the professional and Motu Novu. It contractualizes the provisions of the White Paper, and also covers such topics as confidentiality, intellectual property rights, and unfair competition protection. Prospective applicants can request a copy of the PSCA.

### *3.3.2. Upgrade from Junior Professional to Professional*

Jr. Professionals who have matured at least 10 years of relevant experience may petition the Partnership Council to adjust their seniority rank to Professional.

### *3.3.3. Upgrade from Professional to Partner*

Professionals who are eligible and willing to become partners must petition the Partnership Council after securing the endorsement of at least two existing partners. The Partnership Council approves changes in rank with a majority resolution (see “Governance”, infra.) Upon successful approval, newly elected partners must fund their capital account with at least \$5,000 (five thousand dollars.)

### *3.3.4. Training*

As most of its professionals are very senior, Motu Novu does not offer any firm-sponsored training program. However, professionals are encouraged to condense their knowledge and technical skills in short presentations and/or webinars and to disseminate those throughout the federation.

## **3.4. BUSINESS ALLIANCES**

Motu Novu is inherently multi-local and multi-disciplinary, but its footprint is nevertheless limited. As a result, Motu Novu recognizes the opportunity for close collaboration – in business development, service delivery, and marketplace promotion – with selected organizations which have complementary service offerings, compatible brands, and attuned management styles.

Collaboration between Motu Novu and such organizations may be occasional, or be structured in the form a “Business Alliance” through a standard agreement establishing the terms of a preferential, non-exclusive relationship for the collective development and delivery of new business opportunities. Business alliances are predicated on mutual benefit, clarity, and reciprocal trust.

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## 4. OPERATING AND COMPENSATION MODEL

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Motu Novu is a federation of independent professionals. Motu Novu's professionals are not bound by static employer-employee relationships, but are engaged dynamically as contractors on each assignment. The resulting flexibility allows Motu Novu's operating and compensation model to differ significantly from that of old-school consultancies.

From an operating standpoint, every professional at Motu Novu is encouraged to contribute at all levels to the success of the firm, and is properly rewarded for doing so. There are no artificial barriers to what a professional can and cannot do. In addition, professionals enjoy ample freedom in how to design, price, and deliver their assignments. Motu Novu's oversight is limited to basic rules of engagement meant to maximize the firm's brand equity and to guarantee the quality and timeliness of its delivery.

From a compensation standpoint, Motu Novu adopts a pass-through system: up to 85% of every assignment's proceeds to the professionals who sold, managed, and delivered it (or up to 96% for interim management projects). In perspective: 85%-96% payout ratios are up to four times higher than those of last-century consulting firms! However, Motu Novu does not underwrite credit risk: professionals face the same collection cycle and risk at Motu Novu as they would face if they acted independently... because they do. Even at Motu Novu, freedom isn't free.

Please refer to "Appendix A. Formulae" for the analytic definition of marginality and other formulae on compensation accretion and distribution.

### 4.1. BUSINESS DEVELOPMENT

All Motu Novu professionals, regardless of their seniority, are encouraged to develop new business, and are rewarded with a commission for doing so (see "Sales Commissions", *infra*). To ensure consistent excellence in delivery, every assignment is approved and managed by a partner, who takes personal responsibility for Motu Novu's performance.

Solo practitioners who join Motu Novu having an existing portfolio of clients are not required to transfer their business to Motu Novu. They can choose which clients or individual assignments to transfer and which ones to continue to serve independently. At the same time, Motu Novu adopts simple yet very strict rules to ensure fair play among professionals and towards the firm (see "Fair Play Rules", *infra*.)

#### 4.1.1. Sales Commissions

Professionals who materially contribute to the development of new business are awarded a sales commission: 10% (ten percent) of collections most advisory assignments, and half of the net marginality in excess of 5% for interim management projects. If more than one professional was materially involved in

the development of a new assignment, the commission is divided among them – equally, unless they unanimously agree otherwise. Any dispute is resolved by the Managing Partner.

#### *4.1.2. Business Development Expenses*

Expenses incurred to develop new business are fully reimbursable provided that: 1) the assignment is actually sold; 2) the expenses are incurred and reported in accordance with Motu Novu’s Expenses Guidelines; 3) they are approved by the assignment manager.

#### *4.1.3. Fair Play Rules*

The Motu Novu federation is designed to bring together a rather large number of very diverse and very talented individuals. We celebrate our differences, in styles and opinions. At the same time, we value unity and reciprocal trust. That’s why Motu Novu strictly upholds a small set of behavioral rules meant to ensure “fair play” among our professional and towards the firm.

Any new business developed by Motu Novu’s professionals thanks to a material use (i.e. the business would have otherwise been less likely to be secured) of Motu Novu’s resources<sup>5</sup> must involve Motu Novu in either as main contractor or subcontractor. In most cases, Motu Novu should be the main contractor, unless the assignment manager, with the consent of the managing partner, determines otherwise given the nature of the task and/or of the client. If Motu Novu is the main contractor, then the entire assignment is bound by the firm’s operating and compensation model. If Motu Novu is the subcontractor, then the firm’s model applies only on Motu Novu’s portion of the work.

Professionals who recede from the federation are required to immediately return all properties of Motu Novu and its clients in their possession and to immediately discontinue use of Motu Novu’s resources. Upon exiting the federation and for the following 2 (two) years, former professionals are also forbidden from: 1) engaging in any activity that may result in direct competition<sup>6</sup> with Motu Novu; 2) induce or attempt to induce any current professionals, clients, suppliers, contractors, or business alliance members of Motu Novu to discontinue their relationship with Motu Novu; 3) dissuade or attempt to dissuade any prospective professionals, clients, suppliers, contractors, or business alliance members from establishing a relationship with Motu Novu.

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<sup>5</sup> Motu Novu’s resources include, but are not limited to: Motu Novu’s brand, network of professionals, business alliances, contacts and leads, IT and operational tools, case studies, references, administrative support, research staff and work products, and so on.

<sup>6</sup> Services rendered by a former professional acting as an independent solo practitioner are not considered direct competition and therefore not subject to this covenant. Association (in any legal or de facto form) of two or more former professionals to provide professional services of any kind is considered direct competition and is therefore strictly forbidden.

## 4.2. ASSIGNMENTS

All contractual engagements between Motu Novu and its clients are called “assignments.” The term “assignment” is preferred over the similar term “project” because “assignment” has broader applicability: it encompasses both projects – unique, non-repeated engagements – and processes – repeated engagements. Both types of assignments are sold and delivered by Motu Novu.

New assignments can be sold by any professional (see “Business Development”, supra), but each assignment must be approved and managed by a partner who takes personal responsibility for client management, planning, staffing, delivery, and collections. Assignment managers are rewarded with a commission (see “Assignment Management”, infra.)

Assignments are delivered by professionals, who can work either solo or in teams depending on the nature of the assignment. Motu Novu has no bias for team size and discourages overstaffing – while some assignments require (large) teams, some simply don’t.

Up to 70% of the net proceeds of each assignment (up to 95% for interim management projects) is paid out to the professionals who deliver the work. Actual payout rates are negotiated, prior to the beginning of an assignment, between the assignment manager and all the professionals involved, and are contractualized using Motu Novu’s standard Statement of Work (“SOW”) addendum to the PSCA.

### 4.2.1. Assignment Expenses

Expenses (e.g. travel) incurred by professionals working on an assignment are fully reimbursable provided that: 1) they are within the limits of the contractual agreement with the client; 2) the expenses are incurred and reported in accordance with Motu Novu’s Expenses Guidelines; 3) they are approved by the assignment manager.

### 4.2.2. Assignment Management

Each assignment is managed by an assignment manager, who must be a partner. The assignment manager takes complete responsibility for client management, assignment planning, assignment staffing, work delivery, and collections. Assignment managers are allocated as soon as leads are qualified, and are normally not changed until the assignment is completed. If the assignment’s marginality does not meet Motu Novu’s minimum, the assignment manager is personally liable through his/her capital account (see formulae M2a and M2im under “Appendix A. Compensation Formulae”, infra.) Account managers are compensated with a commission equal to 5% (five percent) of collections for most advisory assignments and 1% (one percent) of collections for interim management projects.

## 4.3. PAYMENT METHODOLOGY

### 4.3.1. *Pass-Through Payment System*

Motu Novu strictly observes a pass-through payment system: compensation for each assignment (for sales, work on assignments, account management, and all other) is paid out to professionals only subject to Motu Novu receiving payment from the client. Similarly, contingent compensation<sup>7</sup> is paid out only upon cash monetization. If a client does not pay or pays less than its dues, or if contingent compensation doesn't monetize as expected, then Motu Novu will also not pay out or will pay out proportionally less. This system is essential to minimize credit risk, and thus it allows Motu Novu to uphold its exceptionally high (85%-96%) payout ratio<sup>8</sup>.

### 4.3.2. *Payment Beneficiary*

Professionals may be paid directly as individuals (if permitted by the local labor and tax laws they are subject to) or may designate an entity to receive payments on their behalf individuals (if permitted by the local labor and tax laws they are subject to). The latter option is particularly useful for members who already use a legal entity to consolidate their earnings. For each assignment, the payment beneficiary must be clearly specified in the SOW.

Motu Novu is responsible for complying with U.S. tax laws and will provide taxation specialists at negotiated rates upon request. However, professionals are solely responsible for their own individual compliance with any labor and/or tax law they may be subject to.

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<sup>7</sup> In general, Motu Movu allows all form of contingent compensation, such as result-based commissions, success fees, royalties, equity, and derivatives on equity such as options and warrants. In fact, the acceptance of (partially) contingent compensation is often used as a tool to substantiate Motu Novu's confidence in its ability to deliver when others just consult. However, acceptance of contingent compensation for an assignment is always subject to the written approval of the account manager.

<sup>8</sup> Readers who are concerned about undertaking their own share of credit risk should question their commitment to be independent professionals, and consider joining major consulting sweatshops. In exchange for 100-hours weeks, unnervingly inexperienced bosses, unrewarding jobs, and low 25-30% payout ratios, they can thus purchase (moderate) credit insurance.

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## 5. GOVERNANCE

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Governance of the Motu Novu Partnership is entrusted to the Partnership Council, to the Managing Partner, and to a limited extent to the individual Partners.

### 5.1. PARTNERSHIP COUNCIL

The Partnership Council is highest governance body of Motu Novu. It comprises all current partners. It meets compulsorily in ordinary session once a year (during February), and may meet in extraordinary sessions without limitation upon request of the Managing Partner or of a number of partners equal to the total number of partners divided by two, rounded up, plus one.

On most matters, the Partnership Council deliberates with a per-dollar simple majority. Each partner attending a council session is awarded one vote for each dollar in his/her capital account balance, as lastly computed (usually as of the end of the prior fiscal year.) A simple majority resolution is passed if it receives a number of favorable votes equal to or greater than the total number of votes awarded for the council session, divided by two, rounded up, plus one.

The matters requiring a simple majority resolution include, but are not limited to:

- Determine the strategy of Motu Novu.
- Approve or modify overhead budgets;
- Veto prospective members seeking admission to the federation;
- Elect new partners and approve changes in rank;
- Approve the consolidated annual report for the previous fiscal year;
- Compute dividends and determine the dividend distribution ratio (if any);
- Accept liquidity opportunities (e.g. sale of the firm);
- Any other matter not explicitly mentioned to require a qualified majority resolution.

On some critical matters, the Partnership Council deliberates with a per-dollar qualified majority. Each partner attending a council session is awarded one vote for each dollar in his/her capital account balance, as lastly computed (usually as of the end of the prior fiscal year.) A simple majority resolution is passed if it receives a number of favorable votes equal to or greater than the total number of votes awarded for the council session, divided by 1.5 (one point five), rounded up, plus one.

- Elect or remove the Managing Partner;
- Elect or remove the Treasurer;
- Adopt disciplinary actions (for grave motives), including expulsion;



- Approve single overhead expenses or capital investments of face value greater than 10% of the combined value of all capital accounts (as lastly computed) or \$100,000 (one hundred thousand dollars) whichever is smaller;
- Amend the White Paper.

Partners who are the object of the vote (e.g. pending disciplinary action for grave motives) cannot vote. In case of a tie vote on the same topic for three times in a row, a final decision is made by the current Managing Partner. Partners are required to attend in person when the Partnership Council meets in ordinary session, but may participate via teleconference to extraordinary sessions. Partners may delegate another partner in writing. Partners who are not present agree to be legally bound by any and all decisions made by the Partnership Council during their absence.

## **5.2. MANAGING PARTNER**

The Managing Partner is elected by the Partnership council and stays in office until removed. A partner may not serve as Managing Partner if s/he currently serves as Treasurer. The Managing Partner's duties include:

- Legally represent Motu Novu's juridical person without limitation other than those imposed by the White Paper;
- Enact Motu Novu's strategy as set by the Partnership Council;
- Attempt to resolve any controversy arising between partners and professionals;
- Defer a partner or professional to the Partnership Council for disciplinary actions for grave motives;
- Call extraordinary sessions of the Partnership;
- Attend to any day-by-day management duties as required.

The Managing Partner may receive a salary upon discretion of the Partnership Council. If Motu Novu is profitable, the Managing Partner is always entitled to a bonus equal to 2% (two percent) of the firm's pre-tax margin.

## **5.3. TREASURER**

The Treasurer is elected by the Partnership council and stays in office until removed. A partner may not serve as Treasurer if s/he currently serves as Managing Partner. The Treasurer's duties include:

- Manage Motu Novu's treasury, billing, collections, and disbursements;
- Prepare, present, and manage the overhead budget;

The Treasurer may receive a salary upon discretion of the Partnership Council. If Motu Novu is profitable, the Treasurer is always entitled to a bonus equal to 2% (two percent) of the firm's pre-tax margin.

## **5.4. PARTNERS**

Partners legally represent Motu Novu versus clients, professionals, and suppliers on the assignments where they serve as account managers. Every partner who has been with the firm for at least 2 (two) year may be elected to serve as Managing Partner or Treasurer.

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## APPENDIX A. COMPENSATION FORMULAE

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For each formula, a layman's explanation is provided using plain English. However, since algebra doesn't lie as much as other languages do, in case of any discrepancy or difference in interpretation between the formulaic expression and its English explanation, the formula has precedence and validity.

### ASSIGNMENT MARGINALITY

The following formula is used to compute the marginality of an advisory assignment. It applies to all advisory assignments run by Motu Novu, with the exceptions of “Interim Management” projects (see infra).

$$\sim_i = R_i - C_i^S - C_i^M - W_i^P - W_i^E + E_i^B - E_i^R - B_i \pm O_i \quad (M1)$$

Where is defined:

$\sim_i$	Marginality of assignment $i$
$R_i$	Net collections of assignment $i$ (inclusive of all realized contingent proceeds)
$C_i^S$	Sales commission for assignment $i$
$C_i^M$	Account management commission for assignment $i$
$W_i^P$	Payout all Motu Novu’s professionals staffed on assignment $i$
$W_i^E$	Payout to all external resources (not part of Motu Novu) employed on assignment $i$
$E_i^B$	Expenses billed to and collected from the client for assignment $i$
$E_i^R$	Expenses (excluding business development expenses) reimbursed on assignment $i$
$O_i$	Other itemized collections or disbursement for assignment $i$ . Examples: sales commission paid to business alliance Partners; profit/loss on foreign exchange.

**Layman’s Explanation.** The net marginality of a assignment is computed on cash basis and equals the net collections from the Client ( $R_i$ ), inclusive of all realized contingent proceeds when applicable, minus the sales commissions ( $C_i^S$ ) due to the Professional(s) responsible for selling the assignment, minus the account management commissions ( $C_i^M$ ) due to the Partner taking legal and P&L responsibility for the assignment, minus the payout ( $W_i^P$ ) to all Motu Novu’s professionals staffed on the assignment, minus the payout ( $W_i^E$ ) to all external resources (not part of Motu Novu) employed on the assignment, plus all expenses ( $E_i^B$ ) billed and collected from the client, minus all expenses ( $E_i^R$ ) reimbursed to professionals and external resources on the assignment, plus or minus any other itemized collections or disbursements ( $O_i$ ) such as sales commissions paid to business alliance partners, forex fluctuations, etc.

*ASSIGNMENT MARGINALITY: ADVISORY*

For all advisory projects, with the exception of interim management projects (see “Interim Management Projects”, infra) the formula (M1) is subject to the following general constraints:

$$\sim_i \geq 0.15 \cdot R_i \quad (M2a)$$

**Layman’s Explanation:** Net marginality for a generic advisory assignment must be at least 15% of collections. Conversely, up to 85% of the net proceeds of a assignment are paid out to the professionals who sold, managed, and delivered such assignment.

**Assignment Manager’s Responsibility for Minimum Marginality.** If the net marginality of an advisory assignment is less than 15% (including negative, i.e. the assignment as generated a net loss for Motu Novu), then the partner who served as assignment manager is directly responsible through his/her capital account. The partner’s capital account is debited with the amount necessary to restore the assignment’s marginality to 15%. Should the capital account’s balance be insufficient, the partner is personally liable for the difference, which is immediately due to Motu Novu.

$$C_i^S = 0.10 \cdot R_i \quad (M3a)$$

**Layman’s Explanation:** Sales commissions equal 10% of collections.

$$C_i^M = \frac{1}{4} \cdot (\sim_i + C_i^M) \quad (M4a)$$

**Layman’s Explanation:** Assignment management commission equals one-fourth of the gross marginality of the assignment, i.e. the net marginality ( $\sim_i$ ) plus the assignment management commissions ( $C_i^M$ ) itself. Read: after all other disbursements are made, the assignment manager receives one-fourth of whatever is left. Clearly, the greater is the marginality ( $\sim_i$ ), the greater the assignment management commissions ( $C_i^M$ ). Therefore, assignment managers have an incentive to negotiate competitive rates with professionals and external resources, and to keep billable and reimbursable expenses in balance.

### *ASSIGNMENT MARGINALITY: INTERIM MANAGEMENT PROJECTS*

An assignment is deemed an “interim management” project if it meets all the following criteria: a) all Motu Novu professionals involved in the assignment devote at least 60% (sixty percent) of their FTE (full-time equivalent) to the assignment while they are engaged in it; b) the assignment elapses (with 60% deployment of each professional involved) for at least 6 (six) consecutive calendar months.

For interim management projects the formula (M1) is subject to the following special constraints:

$$\tilde{r}_i \geq 0.04 \cdot R_i \quad (\text{M2im})$$

**Layman’s Explanation:** Net marginality for an interim management project must be at least 4% of collections. Conversely, up to 96% of the net proceeds of a project are paid out to the professionals who sold, managed, and delivered such project.

**Assignment Manager’s Responsibility for Minimum Marginality.** If the net marginality of an advisory assignment is less than 4% (including negative, i.e. the assignment as generated a net loss for Motu Novu), then the partner who served as assignment manager is directly responsible through his/her capital account. The partner’s capital account is debited with the amount necessary to restore the assignment’s marginality to 4%. Should the capital account’s balance be insufficient, the partner is personally liable for the difference, which is immediately due to Motu Novu.

$$C_i^S = \frac{1}{2} \cdot (\tilde{r}_i - 0.05 \cdot R_i) \quad (\text{M3im})$$

**Layman’s Explanation:** Sales commissions equal one-half of the net marginality of the project in excess of 5% of collections. Read: after all other disbursements are made and at least 5% has been accrued to satisfy (M2im) and (M4im), the professional(s) responsible for selling an interim management project will receive one-half of whatever is left.

$$C_i^M = 0.01 \cdot R_i \quad (\text{M4im})$$

**Layman’s Explanation:** Assignment management commissions for interim management projects equal 1% of collections.

## CONTRIBUTION OF A PROFESSIONAL TO AN ASSIGNMENT

This formula is used to compute the economic contribution of a professional to an assignment.

$$f_{i,p} = \left[ \frac{1}{8} \frac{C_{i,p}^S}{C_i^S} + \frac{1}{8} \frac{C_{i,p}^M}{C_i^M} + \frac{3}{4} \frac{W_{i,p}^P}{W_i^P + W_i^E} \right] \cdot \sim_i \quad (\text{P1})$$

Where is defined:

- $f_{i,p}$  Contribution indicator for professional  $p$  on assignment  $i$
- $C_{i,p}^S$  Sales commissions, if any, to professional  $p$  on assignment  $i$
- $C_i^S$  Overall sales commissions awarded on assignment  $i$
- $C_{i,p}^M$  Assignment management commissions, if any, to professional  $p$  on assignment  $i$
- $C_i^M$  Overall account management commissions awarded on assignment  $i$
- $W_{i,p}^P$  Payout to professional  $p$  on assignment  $i$
- $W_i^P + W_i^E$  Overall payout to all professionals and external resources on assignment  $i$ .
- $\sim_i$  Marginality of assignment  $i$  as in (M1)

**Layman’s Explanation.** The performance indicator for a professional on an assignment is computed by allotting the assignment’s net marginality based on the professional’s relative contribution to sales, to account management, and delivery. One-eighth of the total allotment is due to the relative contribution to sales, computed by dividing the sales commissions awarded to the professional by the total sales commissions awarded on the assignment. Another one-eighth of the total allotment is due to the relative contribution to account management, computed by dividing the account management commissions awarded to the professional by the total account management commissions awarded on the assignment. The remaining three-fourths of the total allotment is due to the relative contribution to delivery, computed by dividing the payout to the professional by the total payouts to both professionals and external resources on the assignment.

## YEARLY CONTRIBUTION OF A PROFESSIONAL

The following formula is used to compute an indicative measure of economic contribution to Motu Novu's marginality by each Professional, across all assignments performed in a given fiscal year<sup>9</sup>. Such contribution indicator is one of the key factors considered to evaluate the overall performance of Professionals and determine their eligibility to become Partners.

$$f_p = \sum_i f_{p,i} \quad (P2)$$

Where is defined, for the period being considered:

$f_p$  Performance indicator for Professional  $p$  across assignments  $i = 1, \dots, n$

$f_{p,i}$  Performance indicator for Professional  $p$  on assignment  $i$  as in (P1)

**Layman's Explanation.** The overall performance indicator for a professional during a given fiscal year equals the summation the performance indicators for all assignments partaken by that professional during that given fiscal year

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<sup>9</sup> Projects spanning across two years or more years must be broken into yearly phases or units; pro-rating of the overall performance indicator for a multi-year project based on calendar time, FTE, or other arbitrary metrics is not allowed.



*YEARLY PROFIT (OR LOSS) OF THE FIRM*

The following formula is used to calculate the total profits (or losses) accrued during a given fiscal year. Profits are available for reinvestment or distribution, whereas losses must be immediately covered by the Partners.

$$\Pi = F_p + \sum_i \sim_i - H \pm O - T \quad (M6)$$

Where is defined, for the period being considered:

$\Pi$	Profit available for reinvestment or distribution / loss to be covered
$F_p$	Membership fees paid by new Professionals
$\sum_i \sim_i$	Overall marginality for all assignments
$H$	Operating and overhead costs
$O$	Other (extraordinary) revenue/cost
$T$	Estimated corporate taxes paid / to be paid

**Layman's Explanation.** The total profits (losses) accrued by the firm during a fiscal year equal the total membership fees paid by new professionals who joined the Federation during that fiscal year, plus the overall marginality for all assignments run by Motu Novu during that fiscal year, minus all operating and overhead costs incurred by Motu Novu during that fiscal year, plus (minus) any other extraordinary revenue (cost) generated (incurred) by Motu Novu during that fiscal year, minus the estimated corporate income taxes already paid and/or expected to be paid for that fiscal year. If the total summation is positive, the firm posts a profit; if the total summation is negative, the firm reports a loss.

## PROFIT/LOSS ACCRUAL TO EACH PARTNER

Total profits (or losses) accrued by Motu Novu during a given fiscal year are pro-rated to all Partners with the firm during the fiscal year using the following formula. Pro-rated profits may be reinvested or distributed (D2), whereas pro-rated losses are charged against the capital accounts held by Partners.

$$\Delta_k = \left[ \frac{1}{2} \frac{K_k^{t-1}}{\sum_k K_k^{t-1}} + \frac{1}{2} \frac{f_k}{\sum_k f_k} \right] \cdot \Pi \quad (D1)$$

Where is defined, for the period being considered:

$\Delta_k$	Portion of the profit/loss accrued to Partner $k$
$K_k^{t-1}$	Capital account held by Partner $k$ at the beginning of the period
$\sum_k K_k^{t-1}$	Total capital accounts held by all Partners at the beginning of the period
$f_k$	Contribution indicator for Partner $k$ as in (P2)
$\sum_k f_k$	Total contribution indicators for all Partners
$\Pi$	Profit available for reinvestment or distribution / loss to be covered

**Partners' qualification for profit/loss accrual.** If Motu Novu posts a profit for a given fiscal year, only Partners who have been with the firm for at least 183 days during that fiscal year do qualify for dividend distribution. However, if the firm reports a loss for a given fiscal year, all Partner accrued a pro-rated share of the loss as per (D1), with the exception of new Partners who were not with the firm during the previous fiscal year and who have been with the firm for less than 183 days during the fiscal year considered. Partners who do not qualify for profit or loss accrual are not considered in the ratios of (D1).

**Layman's Explanation.** Partners who qualify for profit/loss accrual accrue a pro-rated share of the profit/loss posted by Motu Novu during a given period. The pro-rated share accrued by a Partner is determined by both the relative importance of the capital account held by the Partner at the beginning of the period and by the relative importance of the Partner's contribution to the marginality of the period. The first factor (capital account) is weights 50% (fifty percent); the second factor (contribution) weights 50% (fifty percent.)

### *PROFIT/LOSS ACCRUAL TO EACH PARTNER*

Pro-rated profits accrued by Partners are reinvested or distributed according to this formula.

$$u_k = d \cdot \Delta_k \quad \text{Subject to: } \Pi > 0 \quad (D2)$$

Where is defined, for the period being considered:

$u_k$  Dividend distributed to Partner  $k$

$d$  Dividend distribution ratio set by the Partnership Council and equal for all Partners

Subject to:  $d \in [0,1]$

$\Delta_k$  Profit accrued to Partner  $k$

**Layman's Explanation.** Each Partner who qualifies for profit accrual will receive a dividend equal to the profit he/she accrued multiplied by a dividend distribution ratio. The dividend distribution ratio is set by the Partnership Council and is applied identically to all partners who accrued a profit. The dividend distribution ratio must be greater than or equal to 0 (zero) and smaller than or equal to 1 (one.) This formula is applied only if the firm posts a profit.

### CAPITAL ACCOUNT ACCRETION

The capital account for a Partner of Partner  $k$  at the end of a fiscal year is computed using the following formula.

$$K_k = K_k^{t-1} \pm F_k + \begin{cases} (1-d)\Delta_k & \Pi \geq 0 \\ \Delta_k & \Pi < 0 \end{cases} \quad (D3)$$

Where is defined, for the period being considered:

$K_k$	Capital account held by Partner $k$ at the end of the period
$F_k$	Capital contributions (withdrawals) made by Partner $k$ during the period
$K_k^{t-1}$	Capital account held by Partner $k$ at the beginning of the period
$d$	Dividend distribution ratio set by the Partnership Council and equal for all Partners
$\Delta_k$	Profit/loss accrued to Partner $k$
$\Pi$	Overall profit/loss posted by Motu Novu

**Layman’s Explanation.** The capital account held by Partner at the end of a fiscal year has a balance equal to the Partner’s capital account balance at the beginning of the fiscal year, plus (minus) the capital contributions (withdrawals) made by the Partner during the fiscal year, plus an additional factor based on the performance of Motu Novu. If Motu Novu posted a profit, such additional factor equals the reinvested portion of the profits accrued by the Partner. If Motu Novu posted a loss, such additional factor equals the portion of the losses accrued by the Partner. If the Partner does not qualify for any profit/loss accrual, such additional factor is disregarded.

**Capital Reimbursement.** If the balance of a Partner’s capital account become negative because of the capital withdrawals or attributed losses, then the Partner is required to immediately replenish the account with a capital contribution sufficient to restore the capital account’s balance to at least 0. Should the Partner fail to reimburse a negative capital account, s/he may be expelled from the firm (see “Governance”, supra.) Expulsion does not relieve the Partner from his/her obligation to reimburse to the firm the negative capital account balance.