Partner Compensation Systems in Professional Service Firms Part I

by Michael J. Anderson

Before you overhaul your firm's compensation system, consider this analysis of the strengths and weaknesses of the most common systems used in professional service firms. And keep in mind the basic truths about compensation...

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In our work, we are exposed to a variety of methods used by professional services firms, particularly lawyers and accountants, to divide partnership profit.We have found that almost all compensation systems fall into seven basic categories--or variations of these categories:

1. Equal Partnership
2. Lock-Step
3. Modified Hale and Dorr
4. Simple Unit
5. 50/50 Subjective-Objective
6. Team Building
7. Eat What You Kill

BASIC TRUTHS ABOUT COMPENSATION SYSTEMS

If your firm is considering anything from a minor adjustment to a major overhaul of your compensation system there are some basic truths that you should keep in mind.

There is no magic system that will satisfy all partners, meet all strategic goals and never need to be changed. All professional service firms must realize that a compensation system is a living and breathing beast. It will need to change or adjust to meet the demands of changing times--either to satisfy partner concerns or to complement and reward compliance with ever-changing firm goals. (And we all know that the only constant in professional life today is change.) Try as you might, some people will always think you are singling them out for a smaller piece of the pie.The best you can hope for is that most will view the system as relatively fair.

A compensation system should be related to your firm's strategic goals. For example, if you think that the mentoring of juniors is a worthwhile pursuit, then you had better have some form of reward for it in your compensation system or the message to your partners is that it is valueless and will only be done through their altruism and sense of teamwork.

Every type of compensation system has compelling reasons for adoption, or strengths, and often just as compelling reasons why it should *not* be adopted, or weaknesses.While a system might deal handily with partner concern A, it might have a reverse effect on partner concern B. For example, a system that rewards rainmakers might solve the concern of those partners most responsible for bringing in the work. If, however, the system does not reward the partners who take responsibility for those clients, you will offend a vital group of partners. You can bring in all the work in the world, but you will not improve your profitability if no one takes responsibility for the clients. The reverse is also true: The partners who are capable client managers will have nothing to do unless the rainmakers bring in the clients.

A fair system can only be created when all those affected openly discuss the strengths and weaknesses of any proposed scheme. This type of brainstorming session is the only way to get the issues out and dealt with in appropriately. In very large firms, each interest group in the partnership might send a representative to such a session, as opposed to asking every partner to attend and participate.