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Splitting the Pie: Partner Compensation

by August Aquila

Firms are a composite of the skills of the partners and associates. It is true that not every partner is created equal, it is also true that the firm would not be where it is today with all the partners contributing in some fashion to its success. Just think where your firm would be today if no one brought in new business last year. Bringing in business is one of the most important things that partners can do. However, it's not the only activity that adds value to the firm. Where would the firm be without a strong leader/visionary? Without partners who bring technical expertise and service quality? Without the partner who is constantly in the community? Without the partner(s) who expands services to clients and who knows how to provide outstanding client service?

Finally, partners need to be motivated. If there is not a significant reward at the end of the year (the so-called "pot of gold"), why should the partners strive to excel? There are firms that have shown their partners that the rewards are worth the effort.

I can't tell you how to determine partner compensation. Each firm needs to come to that conclusion by itself. What I can show you are some of the things to think about and what some other firms have determined to be important for them in this annual exercise. With that in mind here are some of the things to think about in determining what is best for your firm. things to think about in determining what is best for your firm.

General Concepts to Consider

1. Is your compensation system perceived to be fair by the partner group?
Yes ___ No ___. If no, your firm may be facing serious problems beyond the distribution of the profits.
2. Do all your partners understand how the compensation process works?
Yes ___ No ___ If no, discuss the process at the next partners' meeting.
3. Do you have an agreement with your partners that fixes their salaries?
Yes ___ No ___

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4. Have you determined the most important thing for your firm in establishing partner compensation?
Yes ___ No ___. If yes, does everyone in the firm agree upon it? If no, what are you waiting for?
5. What do you think will be the major compensation issue(s) facing your firm? Over the next five years? Ten years? What can you do today to address them?
6. Will you undo a previous compensation decision if someone makes a strong enough case?
Yes ___ No ___ If yes, where do the extra dollars come from?
7. Do you ask your partners to fill out a self-valuation form at the end of the year?
Yes ___ No ___
8. Is the form actually used in the performance evaluation?
Yes ___ No ___ If not, why not?
9. Is the self-evaluation form shared with the other partners?
Yes ___ No ___ If not, why not?
10. Do you ask input from all the other partners in the firm regarding compensation decisions?
For example, do you use the "pen and paper" method where you give the total dollars to be distributed and ask each partner to allocate them?
11. Do you have non-partners participating in some form of profit sharing?
Yes ___ No ___
12. Do you hold monthly accountability sessions with each partner to go over receivables, billed time, marketing activities, etc.?
Yes ___ No ___ If not, why not?

Economic Factors to Consider

1. Do you provide your partners with a base salary based on their roles in the firm and then allocate profits based on specific criteria?
Yes ___ No ___
2. What percentage of a partner's compensation is based on new business development?
Less than 20% ___, 20% to 40% ____, 40% to 60%, More than 60% _____?
3. What percentage of a partner's compensation is based on equity ownership _____%?
The higher the percentage the less younger partners will be motivated to make the extra effort to bring in new business, train associates, etc. Since their equity is usually small there isn't the reward there for them.
4. What percentage is based on billed time _____% and collections _____%?
5. What percentage is based on firm management _____%?
6. What percentage is based on the profitability of clients in the partner's book _____%?
7. What value do you put on an individual partner's contribution to the economic growth of the firm other than new business that is brought in?
None ___ Very Little ___ Some ___ A Great Deal _____
8. What percentage of total compensation comes from the bonus pool?
Less than 10% ___, Between 10% and 20% ___, More than 25% _____.

Partners are involved in many different activities, all of which bring value to the firm. Some are of course easier to measure than others, e.g. productivity, collections, write ups/down, etc., while others are more difficult to place a value on, e.g. recruitment, training, administration, management, etc.

The best compensation system is the one that rewards both the production oriented results and the more intangible value enhancement activities.

What does your current system reward?

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About the Author



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