

Ask VeraSage: Designing team and partner compensation without timesheets

Ron Baker - 07/06/2008

We are constantly asked how partner and team member compensation should be handled in the absence of timesheets. This is always a difficult question since there is no easy answer to this even when timesheets are present.

Here's an email I received from Patty, a fellow CPA, on July 2, 2008:

Hi Ron,

I've heard you speak a year ago at the AICPA PCPS conference and have read your book Professional's Guide to Value Pricing. Our firm adopted fixed price agreements about 8 years ago and have been very successful as a result. Our clients appreciate the fixed fee and we have billed much more than we ever would have if charging hourly.

We have embraced your nontraditional view of professional firms, and hope to discontinue timesheets eventually. Presently, we are redesigning our partner & team compensation system. We are struggling with this since most of the models we have found are based, at least in part, on the chargeable hours, realization rates, etc. from the time & billing system. We want to design a compensation system that will be useful even after we discontinue time sheets. Hopefully we can find a hybrid compensation system that we can adopt. We want to keep it simple.

Do you have any advice for us? We've spoken to a few consultants that design partner compensation systems but they are more of the traditional firm model. I would appreciate any referrals to consultants, seminars, or books that could assist us.

I have purchased The Firm of the Future and hope to read it soon, maybe it can provide some guidance.

Thanks,

Patty

Thank you for the question Patty. I would first say to avoid consultants since all they are going to be able to do is to show you what other firms of the past have/are doing, not exactly enlightening when you're blazing a trail.

I also think what you said is quite wise: "We want to keep it simple." Indeed.

In that spirit, for partner compensation, how about replacing charge hours with revenue? Or, if you have some partners who are more admin or rainmaking, than value-added or revenue traced to rainmaking.

I've never seen two partner comp models that are the same; each firm must fit the model to their purpose and strategy. The two extremes seem to be eat-what-you-kill and perfect egalitarianism. What I will tell you is that more and more firms are figuring out that having an objective formula, with no subjective judgment, is crazy. Life is subjective, so is partner performance, and can't be reduced to one number.

I should also state that VeraSage is no fan of the partnership model, since it's a consensus model not a leadership model. We'd prefer a more corporate governance and compensation structure. In that vein, Procter & Gamble doesn't trace revenue to each employee. Don't we all work for the same firm? Why trace revenue to particular people, it creates silos, hoarding work and customers.

As for team member compensation, what we see in Firms of the Future is a base salary, a profit bonus pool, and a discretionary bonus pool for individual team members who contribute value above the call of duty. This does not always just relate to customer work. O'Byrne and Kennedy, for example, rewards team members for making contributions to the firms knowledge bank.

Notwithstanding what I said above, if you want to trace revenue per person and can't figure out how to do it in the absence of timesheets, here's what some firms do: throw the entire team responsible for the customer work in a room and let them allocate it. You'll be amazed how fair they'll be based on merit, not to mention hold each other accountable for results.

You may also find these two prior posts under Ask VeraSage quite helpful: December 31, 2006 and January 1, 2007. Be sure to read all the comments as well.

Finally, I'm going to ask the community to chime in with their advice and experience. I know some of our Trailblazer firms are doing some innovative things in this area.

I hope that helps Patty. Keep us posted on your progress—I can't wait for you to become one of our Trailblazers.