CCH-JOURNAL, CPA Practice Management Forum, December 2008, Not All Partners Are (or Should Be) Created Equal

Not All Partners Are (or Should Be) Created Equal

By Michael Gaines

About the author: Michael Gaines, CPA, is the human resources and administrative partner at Friedman LLP. He has extensive experience in the management functions of CPA firms and is in charge of the firm's human resources function, office management, and overall firm administration. Michael was previously co-managing partner and director of operations of a local New York City public accounting firm. He also has had experience as the director of program development at the Foundation for Accounting Education of the New York State Society of CPAs, where he directed the development of over 150 seminars, conferences and technical sessions. Michael has taught courses in accounting, auditing, practice development and managerial and supervisory skills. He received his B.A. from Queen College, and he was licensed as a certified public accountant in New York State in 1985.

Partners are partners. Right? To the outside world that may be true, but many firms realize that to be effective and efficient in today's world, not all partners can be created equal or treated equally. Nor should they be. Today's partnership may include various levels of partner, some more equal than others, and others that don't even fit the traditional definition of "partner."

At our firm, we've devised a multi-tiered partner structure that has worked well for us. Not all of these tiers are formally recognized, not all are equity positions, and some don't have the word "partner" as part of their title. What we hoped to accomplish is letting our people know we recognize their contributions to the firm. And we've succeeded. In the last 10 years, we've grown from 100 to 300 people, and the number of partners, principals and directors has grown from 14 to 65.

In addition to our partner structure, we've worked hard to create and nurture a collaborative firm culture, and we believe that this is a major factor in our retention rate. In 2007, our overall turnover rate was about 14 percent, indicating a high level of contentment at our firm. Our firm has moved to a semi-corporate structure, with Bruce Madnick, our managing partner, having little direct client responsibility. His primary role is that of a chief executive officer charged with overseeing the firm from a strategic and marketing perspective. Our leadership is mandated to think strategically, stay flexible to the demands of the marketplace and communicate as openly as possible with our employees. We are happy with who we are and where we are going as a firm, and that is reflected in the positive attitudes of our employees.

Levels of partner

The evolution of the firm and a very competitive marketplace has created a need for different levels of "Partner". It allows us to:

l Reward the visionaries and leaders

l Identify future high performers

l Continue to benefit from the experience of seasoned professionals

l Utilize the special talents of highly qualified practitioners

The benefit of our system is to allow those at the management level to reach their maximum potential at a pace that meets the needs of the firm, while achieving personal growth and success. They understand that the firm values their contribution.

Performance, commitment, experience and skills are some of the attributes that dictate the "level" of success at Friedman, LLP.

We define our upper management levels as follows:

l Equity partner: Our highest partner level. They have a substantial interest in the firm's success. They have a base level of compensation, share in an allocated bonus pool and share more highly in firm profits.

l Limited equity partner: The same concept as an equity partner but their percentage share of firm profits is lower.

l Income partners: Nonequity partners, whose base compensation is guaranteed, plus a performance-based bonus. They do not share in firm profits.

l Retired partners: At the discretion of the partnership, a partner exceeding retirement age can continue to be employed. In addition to receiving their retirement benefit and accrued capital in the firm, they receive a pro rated (dependent on days worked) portion of their base compensation. Generally these partners have the title of "Partner Emeritus" or "Consultant."

l Contract partners. Contract partners work by special arrangement. The terms of their employment, including our performance expectations, are set out in an agreement that remains in effect for a set period of time.

l Principal: Someone who has been identified as having partner potential, or is at the partner level but is not a CPA. Principals participate in partner meetings, but are excluded from discussions of financial matters.

l Director: Valued professionals who are recognized for their excellent performance heading a functional area, such as marketing, technology, recruiting, human resources and finance.

For the record, many firms have "special partners"; these are partners who aren't retired, but are working as though they were. Generally these partners are aware of the concerns of firm leadership. There are programs in place to mentor these partners and bring them to an operational level, or to transition them to retirement.

The concerns and issues to consider when developing a tiered structure include the length of time people stay at a level, establishing performance criteria, managing relationship transitions and creating a succession plan that will allow for the continuation and long-term growth of the firm.

There is also the need to consider a philosophical issue of giving a "seat at the table" to our directors who add significant value and want to be more involved in the decision-making process.

How we got to this point

Our partnership structure grew over time. It was not part of a formal business plan. Mostly, it evolved in reaction to the economy, a competitive marketplace and the business climate in which we've operated in the post-SOX world.

One of the key factors creating the latest changes to our structure came as a result of understanding the importance and difficulty in recruiting and retaining talent. We realized that the cost of recruiting and training new employees is far greater than the cost of attending to the needs of our present staff and offering a culture and incentives that make Friedman LLP an "employer of choice." We wanted to show our employees that we are as committed to them and their achievements as we want them to be to our firm's future success. In addition to our strong firm culture, which promotes collegiality, teamwork, learning, a sound work ethic and commitment to client satisfaction, we wanted a tangible way to show our next generation of firm leaders how much we appreciate them.

It looks like our 2008 retention numbers will at least match those of 2007. So, even though we never planned to have a multi-tiered partnership, it is working for us. We will continue to grow and change to meet the needs of the clients we serve by meeting the needs of our most important assets, our employees.

NON: PMF01 JOUR-STORY200812-4
http://tax.cchgroup.com/network&JA=LK&fNoSplash=Y&&LKQ=GUID%3Abece1dc8-a3fa-382a-9d6f-c81df822368b&KT=L&fNoLFN=TRUE& PMF01 #6 [PMF01]