

HAS YOUR PARTNER COMP SYSTEM BECOME ANTIQUATED?

“Change is the law of life. And those who look only to the past or present are certain to miss the future.” John F. Kennedy

Change is certainly the order of the day in the CPA profession, and one of the areas changing is how firms allocate partner income.

Two forces at the root of the comp system changes

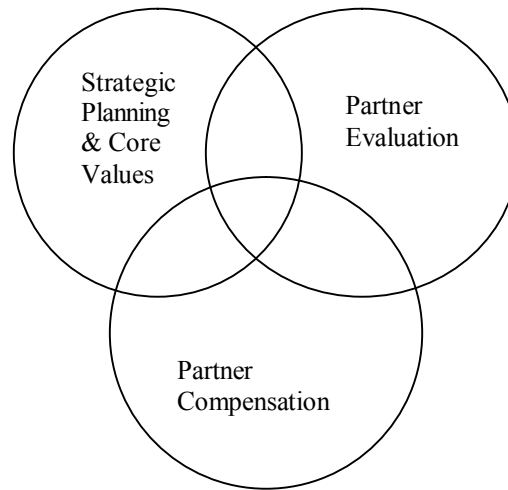
First, firms need different things from their partners today than they did yesterday. The major new focus is staff development and mentoring. This has been triggered by two related forces: the severe shortage of staff and the specter of succession planning looming over the partners.

Second, CPA firms continue to see the benefits from effective management and leadership. Specifically, partners are seeing that living and breathing their strategic plan and core values instead of giving them lip service, *really* pay off.

The huge disconnect

The diagram below shows three overlapping circles, illustrating management practices that, historically, have been largely *disconnected*. For years, many firms diligently have prepared strategic plans and core values, all encased in a lovely booklet. Not only didn't the partners live and breathe the goals and core values, but they had almost nothing to do with how the partners were paid or how they were evaluated. Today firms are seeing that strategic planning *can* make a difference, but only if there is accountability for achieving goals in the form of partner compensation.

At small and medium size CPA firms, only a very small percentage of partners are formally evaluated on their performance. And at those firms that *do* evaluate partners, very little if any of the firm's income is allocated based on the results of those evaluations. Today, on the other hand, firms are increasingly linking performance assessment with partner income allocation.



If production isn't the only way income is allocated, what other factors are being looked at?

Partner production will always be an important factor in allocating income. But firms need other things from their partners:

- Leadership skills
- Staff and younger partners advancing under a partner's tutelage
- Moving clients to other firm members to better serve the clients
- Providing world class service to clients
- Ensuring that the firm's larger clients have multiple relationships within the firm
- Being a *good* partner—treating people respectfully, living and breathing the firm's core values, complying with firm policies

To summarize, what is changing?

1. Intangible performance attributes are impacting income allocation instead of being ignored.
2. For seven-partner firms and up, formula methods are being abandoned in favor of the compensation committee approach, which is better able to reward intangible performance attributes.
3. Less emphasis on “book of business,” more on working as a team to service clients.
4. Linking of strategic planning, partner evaluation and partner compensation instead of the three being disconnected.