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In Search of the Perfect Compensation Plan
In Search of the Perfect Compensation Plan

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Deciding whether to develop a new compensation plan or live with an outdated one can be one of the most potentially disruptive experiences partners have to face. It is well known that there is no such thing as a perfect compensation plan and that no single compensation plan will ever be accepted and agreed upon by all the partners. What, then, is a firm to do?

Creating your plan

When it comes to partner compensation plans, there are two extremes: purely subjective plans, where one person or a committee decides what other partners will be paid, or entirely objective plans, which plug numbers into a formula to determine what partners get paid. The best plans have a combination of both objective and subjective criteria. A compensation plan model for staff will be addressed later in this article.

Ideally, a good plan should accomplish the following things in the firm:

- 1 Encourage the accomplishment of current production goals, as well as goals that build the firm's future ability to compete

- 1 Reward for performance, and not for entitlement

- 1 Support a culture of client service
- 1 Be fair and be fairly administered
- 1 Improve the overall economics of the practice by rewarding the most profitable work for the firm
- 1 Create a one-firm concept, rather than a silo culture

Compensation plans should be as simple as possible so that everyone in the firm understands them. Remember, if you are going to have measurable goals, you will need to have a system in place to track and record them. The more goals you try to measure, the more cumbersome the plan becomes and the easier it is to manipulate the measures.

Designing your partner compensation plan

Every compensation plan should be constructed to help the firm achieve its strategic goals and to attract, reward and retain the right people. All plans need to consider that partners perform the functions that create and maintain a continuing, vital entity. Here are some points to think about as you begin the design process:

- 1 Design the plan around the concept of total compensation, which includes base pay, bonus, return on capital, return on equity, etc.
- 1 Develop a compensation philosophy:
 - 1 What behaviors do you want to pay for?
 - 1 How do you want to pay for them?
 - 1 How will profits be distributed to owners?
- 1 Determine who will participate in the plan.

1 Tailor the plan to your firm's culture and values by matching organizational values to performance.

1 Use both satisfiers (e.g., base pay, benefits) and motivators (pay for performance incentives, empowerment).

1 Link compensation to achieving the firm's vision, mission and strategy.

1 Ensure the plan is win-win-win. Plans must meet the needs of clients, employees and owners.

1 Focus on criteria that improves both top- and bottom-line results.

1 Hold partners and others accountable to competency maps.

1 Measure and reward individual, team and firm-wide objectives and results.

1 Have constant and detailed communication with those affected by the new plan.

Partner Functions . Recall that partners need to perform the functions that create and maintain a sustainable entity. Therefore, partners should focus their energies on the following activities:

1 Lead the practice/business (leadership, not administration)

1 Bring in new business (rainmakers and finders)

1 Maintain the business brought in (minders)

1 Work on the business brought in (often referred to as grinders)

1 While other functions in the firm are also important (human resources, marketing, technology, etc.), these should not be considered primary partner functions.

Sample compensation plan for partners

Here is what a compensation plan that addresses the partner functions listed above often looks like. There are five basic elements that make up the plan. The percentages given in the plan are merely there for representative purposes. Each firm will determine the weight they want to give to each element.

1. Working on the business brought in: Perhaps as much as 50 percent of the distribution. This helps to keep every partner a working partner. Even managing partners in all but the very largest firms are keeping some clients.

2. Business development incentive: About 20 percent of the distribution. It's important to make every partner aware of their responsibility to help build the practice. Just being work-conscious is not sufficient in today's environment.

3. Maintaining the business: About 20 percent of the distribution. This is the individual partner's book of business.

4. Leverage: A key to increasing net income per partner is leverage. Hence, there should be an incentive to delegate work to team members in the firm. This can be from 5 to 10 percent of distribution.

5. Subjective or contingency fund: This usually runs about 5 percent of distribution. This portion can be used to compensate for living the firm's core values, building competencies, exceptional community service or outstanding achievement that reflects credit on the firm. Whatever is not distributed from this element is allocated in proportion to distribution under the first four items of the formula.

It is important to recognize that all partners are not the same and adjust the weighting for each partner in the firm. This makes sense since firms need to maximize each individual partner's strengths.

The Sixth Element: Additional compensation for firm leaders

How should leadership be compensated? The compensation formula needs to be adjusted for partners who lead the firm. They can fall under the same plan as above, but with an added element. These partners, whether they are firm leaders or service line leaders, should be responsible for the results of their area and hence have a significant portion (25 percent or so) of their compensation tied to the results of their area. This keeps these partners focused on the broader picture. The firm's managing partner should have some portion of his or her compensation tied to the overall results of the firm. The more the individual serves as the CEO, the more their compensation should be tied to the firm's overall results.

Compensation plans for staff

Now that we know what partners need to do and have a sample compensation plan, what about staff? Retaining and recruiting staff is one of the biggest problems in public accounting. Add to that the cross-generational and diversity issues firms are facing, and the compensation structure for staff gets more complicated. Firms need to focus staff on building their personal and functional competencies because this is the way they add value to the firm.

1 Personal competencies deal with attitudes and behaviors of individuals in the firm, from entry-level to owner. The key areas of personal competencies include:

1 Personal demeanor

1 Problem solving skills

1 Working with diverse groups/people

1 Leadership

- 1 Communication

- 1 Project management

- 1 Leverage technology

1 Functional competencies relate to the technical competencies, which are most closely aligned with the value contributed by financial professionals. These can include:

- 1 Decision modeling

- 1 Risk analysis

- 1 Research

- 1 Working on the business brought in

- 1 Maintaining the business brought in

- 1 Bringing in new business

Sample compensation plan for staff

Here is what a compensation plan for staff might look like.

- 1 Improving their personal and functional competencies. Perhaps as much as 45 percent of their total compensation, ensuring that every staff person grows professionally and personally within the firm

- 1 Personal productivity. Another 45 percent should be allocated based on their meeting their individual goals

- 1 Discretionary bonus. Five to 10 percent of their salary

This plan should not be static. As staff members move closer to being a manager or director, their individual

compensation plan should look more like the partner's plan above.

Implementing a new plan. The best way to implement a new compensation plan is to run it simultaneously with the old plan for a year. You continue to pay under the old plan, but show employees and partners what they would have earned under the new plan. If you use this approach, you can ensure:

- 1 The new plan creates alignment

- 1 You are able to track measures and provide periodic reports

- 1 You are able to debug any unforeseen problems

- 1 Remember there is no such thing as a perfect plan. Build yours to reward the results you want.