



Partner Compensation Methods & Trends

Presented by

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- ▶ Recovering Managing Partner
- ▶ Over 20 Years as a MP of Brady Ware, a Top 200 Firm
- ▶ Grew firm from 9 to over 130+ people
- ▶ Now working with firms to reach solutions, faster
- ▶ Consultant, author and speaker



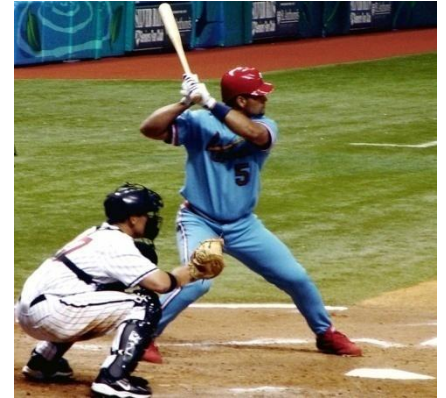
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Rules of the Game



- ▶ Talk to me
- ▶ Polling questions from time to time
- ▶ Pepto Bismol slides



What's Important?

Success Factors			
Performance Evaluation	Production: # of widgets	Book of business Billable hours	Achieve goals
People Development	N/A	Not rewarded much	What could be more important?
Interpersonal Skills	Nice but not critical	Not rewarded much	Critical
Work Hours	How MUCH he works	More hours; more production	How SMART he works
Teamwork	Not critical	Lone Rangers allowed	Company is #1
Intangibles	Obey rules; be on time	Not rewarded much	Leadership; teamwork; Innovation

What Makes a CPA Firm Great?

Accountability

Leadership Development

Intangibles **Growth**

Skilled, Motivated Staff

The Right People on the Bus

Production Leadership & Management

Quality Work

Delivering Great Service

Compensate Partners For...



Executive

Production
Worker



Satisfying Clients
Growth (Finding)
Quality Work
Leadership
Great Staff
Accountability
Leadership Development
Right People on the Bus
Intangibles

Minding
Grinding

Evolution of Comp. in your Firm



Overall Factors in Splitting the Pie

- ▶ Return on capital
- ▶ Finder
- ▶ Minder
- ▶ Grinder
- ▶ Leadership/management
- ▶ Intangibles



Adamson's Three Comp Themes



- ▶ Judgment is always a critical part of the process.
- ▶ You are working with tangibles and intangibles.
- ▶ No two partners are the same.

Polling Question

Intangibles are a significant factor in our comp system.

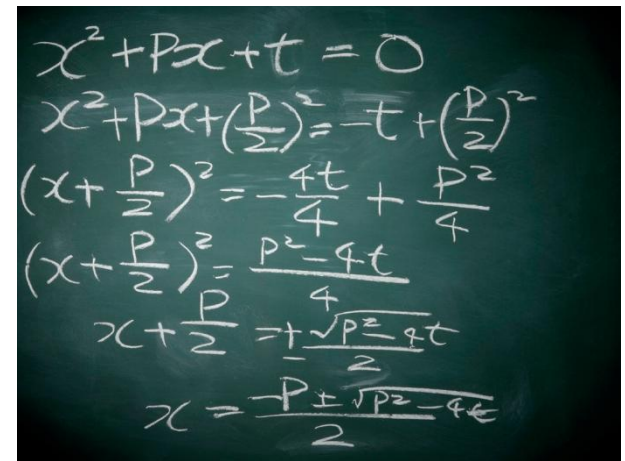
- A. True
- B. False

Compensations Systems

- ▶ Equal
- ▶ Ownership percentage
- ▶ Slip of paper
- ▶ All partners meet to decide
- ▶ Formulas
- ▶ MP decision
- ▶ Compensation committee

Formulas

- ▶ Most commonly used (especially in smaller firms)
- ▶ Eat what you kill theme
- ▶ Accountants love it
- ▶ Exists with a (relatively) lower level of trust
- ▶ Profit center approach
- ▶ Cumulative points
- ▶ Many problems
- ▶ Several examples



Handwritten derivation of the quadratic formula on a chalkboard:

$$\begin{aligned}x^2 + Px + t &= 0 \\x^2 + Px + \left(\frac{P}{2}\right)^2 &= -t + \left(\frac{P}{2}\right)^2 \\(x + \frac{P}{2})^2 &= -\frac{4t}{4} + \frac{P^2}{4} \\(x + \frac{P}{2})^2 &= \frac{P^2 - 4t}{4} \\x + \frac{P}{2} &= \pm \frac{\sqrt{P^2 - 4t}}{2} \\x &= \frac{-P \pm \sqrt{P^2 - 4t}}{2}\end{aligned}$$

Compensation Committee

- ▶ 3 to 5 person group makes the allocation
- ▶ Popular for 8 or more partners
- ▶ MP plays a major role
- ▶ Dominant in larger firms
- ▶ Focused on performance / contribution
- ▶ Rewards intangibles

Partner Compensation Systems

	2 Ptrs	3-4 Ptrs	5-7 Ptrs	8-12 Ptrs	13+ Ptrs	2017 Total	2016 Total
Comp Committee	6%	12%	24%	59%	71%	30%	32%
Formula	22%	35%	37%	18%	11%	29%	30%
Paper & Pencil	3%	3%	5%	0%	3%	3%	2%
Ownership Pct	3%	4%	9%	6%	6%	6%	4%
MP Decides	16%	14%	9%	12%	3%	11%	11%
Pay Equal	22%	7%	1%	5%	3%	6%	6%
All Decide	28%	25%	15%	0%	3%	15%	15%
Open	100%	91%	82%	55%	43%	77%	75%
Closed	0%	9%	18%	45%	57%	23%	25%

2017 Data from the 2018 Rosenberg MAP Survey

Best Practices & Trends



Linking It All Together

Firm Goals,
Planning,
Core Values

Partner
Evaluations &
Performance

Partner
Compensation

Best Practices / Trends

- ▶ Movement from formulas to committees
- ▶ Movement from tangibles to intangibles (even with formulas)
- ▶ MP is key to the process
- ▶ Performance based
- ▶ Focus on strengths – not fixing things
- ▶ Not all at risk – base vs. bonus

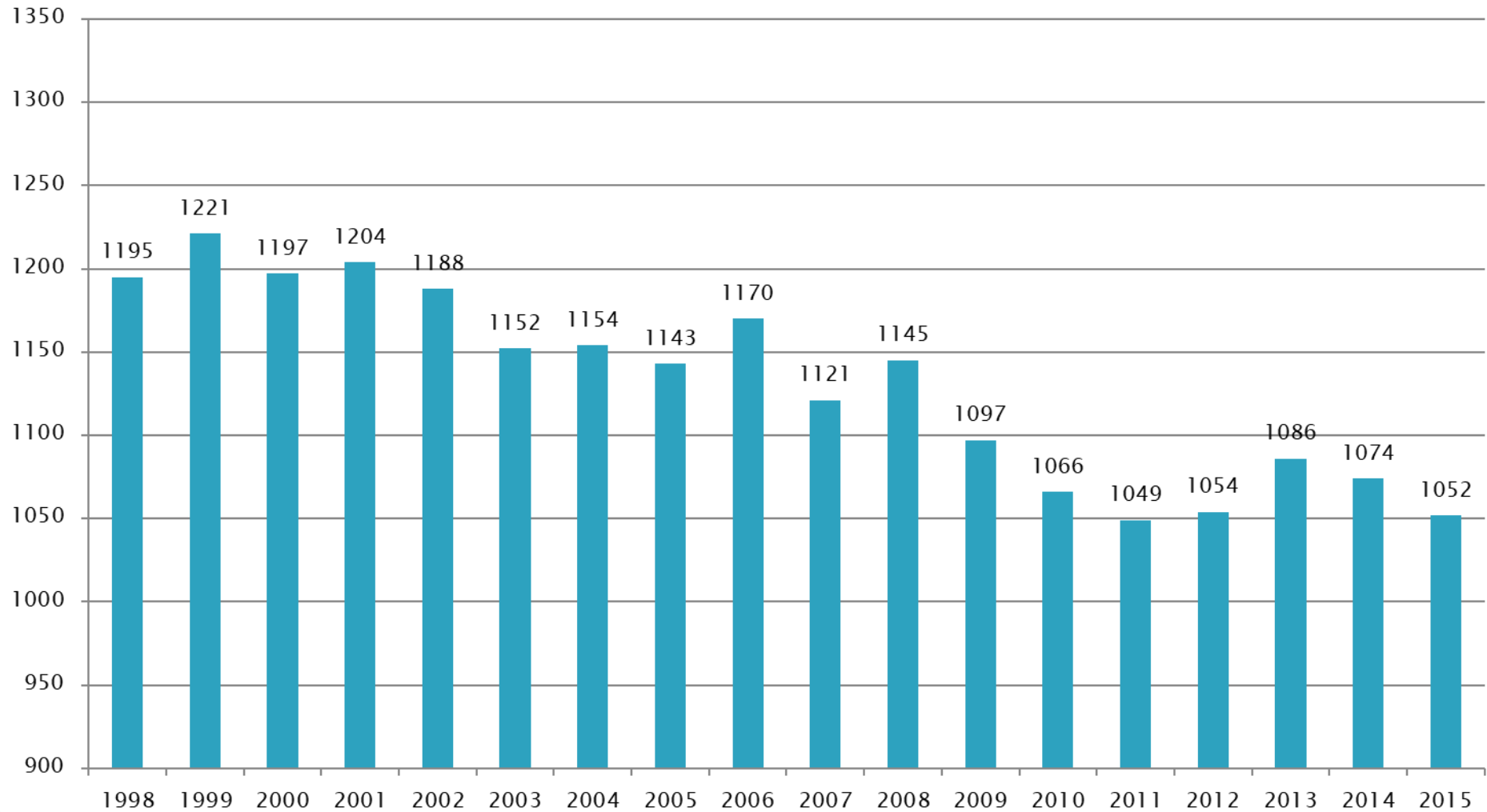


Best Practices / Trends

- ▶ Flexibility
- ▶ New business generation gets a premium
- ▶ Heavy dose of judgment
- ▶ Larger firms closing the process
- ▶ More: “what does the firm need you to do”
- ▶ Less: book of business and chargeable hours



Annual Charge Hours per Partner



Source: Inside Public Accounting, October 2016

Polling Question

Excelling at the following has the most value in our partner comp system:

- A. Bringing in new business
- B. Chargeable time
- C. Managing a book of business
- D. Other or none of the above.

Problems with Formulas



The Problem(s) With Formulas

- ▶ Promotes empire building and silos
- ▶ Difficult to move work
- ▶ Tends to promote everyone being the same
- ▶ How is leadership/management valued?
- ▶ How do you reward sales efforts and especially team sales?
- ▶ How do you decide what is measured and how weights are assigned?
- ▶ Intangibles?
- ▶ Good of the firm activities

If You Have to Have a Formula

- ▶ Three examples out there that work fairly well
 - Finder/Minder/Grinder + Intangibles Vote
 - 20/50
 - Six factors
- ▶ All need to include recognition for return on capital, payment for management and the intangibles

Finder, Minder, Grinder

The formula rewards:

- ▶ Finder – the sale
- ▶ Minder – who has the relationship and runs the engagement
- ▶ Grinder – doing the work (chargeable time)

How do you weight it?

Still carve out management, capital and intangibles

20/50 Method

- ▶ 20% of each partner's book of business
- ▶ 50% personal production realized
- ▶ Have to adjust to your firm
- ▶ Still carve out management, capital and intangibles first

Six Factors

- ▶ \$2500 for each year as ptr., up to 15 max.
- ▶ 25% of production and mgt. time (budgeted)
- ▶ 6% of billings in book
- ▶ 15% of new business billings for 48 months
- ▶ Less 50% of write-offs (AR & WIP) over 12%
- ▶ Bonus fund of 10% of pre-partner profit for achieving goals
- ▶ Any balance remaining allocated equally

More on Comp Committees

- ▶ Larger firms have “evolved” through formulas and other methods
- ▶ Want the MP to have a major impact
- ▶ But, recognize that the MP may not want the job solo and partners may not want that either



Comp Committee Best Practices

- ▶ Communication/understanding of the process is critical
- ▶ Linkage of firm goals to partner goals to compensation must be clear
- ▶ The MP is the quarterback for the process and the liaison with the partners
- ▶ Partners must know how they contribute and what behavior and results will be rewarded
- ▶ Partners must respect and trust committee members



Comp Committee Structure and Process

- ▶ Three to five members
- ▶ Typically voted in, staggered terms
- ▶ Sometimes the Executive Comm. or Board
- ▶ MP permanent member
- ▶ Responsible for year end bonus and next year's salary/draw
- ▶ Meets once a year
- ▶ MP prepares the package for each partner for consideration by the committee
- ▶ Communication of results is critical

Comp Comm. Info Considered

- ▶ Achievement of goals
- ▶ New business development
- ▶ Charge hours – heavily weighted?
- ▶ Book of business \$ – heavily weighted?
- ▶ Profitability of book
- ▶ Working capital utilization
- ▶ Staff utilization
- ▶ Staff mentoring and development
- ▶ Firm leadership activities
- ▶ “Good of the firm” activities

Comp Comm. Info Considered

- ▶ Teamwork
- ▶ Movement of clients to other partners
- ▶ Client service/satisfaction
- ▶ Upward evaluations
- ▶ Partner cross evaluations
- ▶ Non-binding slip of paper
- ▶ Extenuating circumstances
- ▶ MP discretionary pot?
- ▶ Weighting of criteria?
- ▶ Partners nearing retirement

Comp Committee Decision

The hard part: so, how does the committee reach it's decision?



- ▶ CC reviews all data and ranks performance
- ▶ CC does a slip of paper exercise and, then tweaks
- ▶ MP takes the first shot and CC tweaks

Compensation Committee Challenges

“Do we have separate Executive and Compensation Committees?”

“Do I have the right to an appeal?”

“Aren't Compensation Committee members setting their own pay?”

“Do all partners vote on the committee's final decision?”

Questions?



Thank You

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