Driving Performance with Intelligent Partner Compensation

The partner accountability model is aimed at driving partner performance. It starts with trust and unity around a shared firm strategy, clear assignment of ownership and definition of partner roles, and the establishment of partner goals that are specific, measurable, realistic, and relevant. Performance is enhanced by monitoring progress along the way and providing effective feedback. Ultimately, successful performance is measured and rewarded by partner compensation.

The topic of compensation is inherently complex and subjective and is probably the least favorite subject among partner groups, but the one that gets a lot of air time because no one is really ever satisfied with what they make, and all of us believe we would be happier making more.

Even so, a properly designed and well-thought-out partner compensation system can drive desired behaviors and inspire your partner group to high performance. Likewise, a poorly designed partner compensation system will motivate unwanted behaviors and discourage the all-important one firm culture needed to scale your firm and maximize profitability and consistency.

A good partner compensation system is:

- **Understood** by all (in writing)
- **Simple** (or as simple as possible)
- **Fair** – those who contribute the most get the most and those who contribute the least earn least
- **Trusted**
- Designed to drive the right behaviors (performance based)
- **Motivating** and inspiring

A well-designed partner compensation system allows partners to easily understand their potential compensation in advance and how they can affect their compensation both positively and negatively.

A simple and understandable partner compensation system must also be based on clearly stated expectations of what performance is expected and required. Such performance must clearly connect to and support the achievement of overall firm strategy as well as the specific goals assigned to each partner. It's because of these ties to strategy, expectations, and goals that more work is required ahead of sitting down with spreadsheets, formulas, or allocation methods – and this is the work that has often been overlooked, leading to the compensation system dissatisfaction we see in so many partner groups.

The most effective and simple partner compensation systems have the following three elements:

- **Base compensation or draw** – This is the amount paid on a regular (e.g., bi-weekly or monthly) basis to reflect the value of the partner’s expected or minimum contribution to the business
- **Incentive compensation** – This is the compensation put “at risk” and paid upon achievement of both individual partner performance and the achievement of the overall firm strategy
- **Return on investment (ROI)** – This is an amount paid to compensate the partner’s contribution of financial capital

The first step in establishing effective, performance-based partner compensation is to set up a compensation pool based on financial projections of firm revenues and profits. The next step is to...
determine “target” compensation for each partner based on the “value” assigned to various partner roles, such as client service partners, service line leaders, business developers, and the managing partner. This step is critical to the perceived fairness of partner compensation, and it is here that we must underscore our philosophy that all partners are not created equal. Some contribute more overall value to the firm than others – and they should be paid more accordingly.

While there is no “perfect” split between base and incentive compensation, too little at risk will not drive desired behaviors, and too much at risk, especially in the first year or two of a new system, may cause too much fear and uncertainty to be of value. In general, a split of 80% base and 20% incentive is typical in many firms. The payment of incentive compensation is subject to the indisputable achievement of specific, measurable, one-size-fits-one goals that are established for each partner each year and documented in writing. The ability to earn incentive compensation should also be tied to meeting specified minimum performance expectations for all partners around total hours, charge hours, revenue contribution, attending partner meetings, being a good citizen, getting billing done, managing WIP, and driving collections.

Firms must decide whether incentive compensation will be paid on pass/fail or percentage complete basis. Decisions are also required regarding what to do with incentive compensation monies that are not earned, for example distributing any “leftover” amounts based on ownership equity or only allowing those who met their incentives to share in that unallocated pool.

**Making changes to your partner compensation system must be transitional.** Partners need the time and opportunity to adjust to the level of performance required to earn their incentive compensation or adjust their lifestyle in accordance with lower anticipated earnings going forward.

**Partner compensation is both the “driver” and “end result” of an effective partner accountability model.** We encourage you to apply these concepts to transform your partner compensation system so that it rewards partners for both individual and overall firm success. If you would like to discuss your firm’s compensation methods and how you’d like to evolve them, please contact Jack Lee at jack@convergencecoaching.com or (262) 618-4291.