



10 BEST PRACTICES FOR LARGE-FIRM COMPENSATION SYSTEMS

If you are thinking about modifying your current compensation system here are 10 best practices that you will want to consider. How many do you currently have in your partner compensation plan?

- 1. Firm Culture** – Make sure that you recognize the importance of a one-firm culture. Basically, this means that the firm is more important than any one partner. Partners can leave their outsized egos at the door.
- 2. Strategic Planning** – If you don't have a strategic plan then it is hard to reward partners for moving the firm ahead. You need to make sure that the firm's compensation system is tied to the achievement of its strategic plan.
- 3. Accountability** – Partners often have the feeling that they can do whatever they want simply because they are partners. Partners need to achieve and do what they say they are going to do to maintain trust and credibility among the other partners. The compensation plan should strongly enforce the concept of personal responsibility.
- 4. Compensation** – Today compensation is much more than just base salary/draw. Best practices tell us that at a minimum there should be three or more buckets – base compensation, bonus, discretionary element and return on capital or equity.
- 5. Performance Buckets** – These tell your people what areas will be measured. Obviously, traditional production activities are critical to keep a business alive for the present but, developing new business and being involved in activities that enhance the value of the firm are also critical.
- 6. Goal Setting** – How will you know if you had a good year if there are no goals or measurements? These have to be set at the beginning of the year. All partners should have goals that are independent and interdependent.
- 7. Performance Evaluation** – How well am I doing? You won't know unless someone in the firm communicates with you. This should be done at least semi-annually with the goal of helping the partner attain his/her goals.

He is CEO of AQUILA Global Advisors. He is also the co-author of "Compensation as a Strategic Asset" and "Client at the Core."

August can be reached at aaquila@aquilaadvisors.com or 1-952-930-1295. For more information see www.aquilaadvisors.com



8. Leadership – Large firms (\$20M and above) require a team of strong strategic leaders who make things happen and get things done. Smaller firms (under \$20M) rely more on the managing partner.

9. Communication – Honest and open two-way communication between partners and their evaluators is another critical elements of a successful compensation plan.

10. Behavioral Evaluation – Partners need to behave according to the firm's standards. I don't think they should be rewarded for doing so, but there should be some consequence if they don't. Evaluate partners on an annual basis on how well they live the firm's core values so you can help them improve and becoming more of a role model.

If you need help with your compensation plan, call me for a free consultation at 952.930.1295 or email at aaquila@aquilaadvisors.com.

August Aquila is an internationally known speaker, consultant and writer. He is CEO of AQUILA Global Advisors. He is also the co-author of "Compensation as a Strategic Asset" and "Client at the Core."

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