



What Makes a Good Compensation Plan?

During the last 13 years I have focuses a large part of my practice on helping firms develop compensation plan. A critical element in keeping partners engaged is having a compensation system that rewards them for doing the right things. Here's what I found to be some of the best practices.

1. Every compensation plan should be constructed to help the firm enhance its ability to service clients, achieve its strategic goals and to attract, reward and retain the right people. If a firm's plan does not accomplish these objectives, it needs to be restructured.
2. In our experience, there is no perfect compensation system. And we are not trying to create one. However, there are some systems that are better suited for keeping partners engaged, achieving the firm's strategic initiatives and vision, and rewarding for competency and character
3. Many practitioners ask us about different compensation systems and their impact on individuals and firm performance. We are increasingly being asked about whether pay for performance/merit-based systems work, given the move by a lot of firms to incorporate some element of performance-based pay and our answer is "yes, but it depends."
4. Different firms have different compensation systems that seem to work, but the systems firms adopt typically reflect their different cultures or the dominant personality of the managing partner.
5. A base pay that is competitive in the local/regional/national marketplace. Determining base pay is often a difficult exercise and the major questions that firms grapple with in determining base pay include:
 - The firm's overall pay philosophy (market, below or above)
 - What is the base value of any given position?
 - How much should you pay?
 - How do you determine what the pay should be?
6. A meaningful portion of the partner's total compensation needs to be at risk. If there is nothing at risk how do you reward productive behavior and outcomes and discourage nonproductive behavior and outcomes?
7. The performance bonus needs to recognize and reward of both character as well as competence. Character shows how the partner lives the firm's core values, i.e., modeling productive behavior. Character by itself is not enough; partners need to

be able to demonstrate a wide array of client service, client management and business development skills. The most valuable partners in a firm are those that have high character and high competence.

8. Evaluate partners based on customized goals. Partners are not created equal and hence we should not expect that each partner will have the same or similar goals. Rather it is more important to explore with each partner how they can help the firm achieve its goals and vision.
9. The performance bonus needs to incorporate independent and interdependent goals. Too many pay for performance plans pit one partner against another because the goals are only independent.
10. The performance bonus goals need to also focus on current production and building future capacity. If a firm has no margin, it has no mission or vision. A firm needs to focus equally on current production as well as building capacity for future production, developing new services, creating future leaders and training employees.
11. Mutually agreed upon goals are set at the start of the year. Partners need to know what the firm wants them to focus on. Goals are tailored to the individual's strength with clearly defined targets for success.
12. Have some discretionary allocation in the system. Any good compensation system should have a discretionary/subjective element to it.
13. Ensure fairness. Finally, we cannot tell you how many partners have pulled us aside to talk about the perceived lack of fairness of their current compensation systems. What is fair is often hard to determine, but partners in your firm should feel that the plan is fair and that it is fairly administered.

Final Thoughts

The more a firm incorporates the above elements into its compensation plan, the more it will create a culture of engagement, accountability and performance, rather than a culture of entitlement or a culture of lone wolves.