Why Is It Always about Partner Compensation?

By August Aquila

It seems like no matter what the topic is at partner meetings, it always reverts to compensation. There isn't a partner out there who is not interested in his or her compensation, and maybe even *more* interested in what the other partners make.

Compensation is also a topic on which all the partners can never agree. Each partner likes the compensation system that most favors his or her strengths. Hence, non-business developers favor production while business developers favor origination.

There is a real art to designing a plan that gets partners to work together vs. as silos within the firm. Very successful firms recognize that they need different partners to do different things. If the firm is going to be successful over the long haul, it needs to balance partner contributions.

I do not think there is a firm out there that consists of one type of partner. Just think, if all the partners were rainmakers, who would do the work? And, if all the partners were production oriented, who would bring in the business?

New business is the lifeblood of any firm

If a sole practitioner does not bring in new business, he or she goes out of business. But, what is new business? Is it only a new client or is it a new project from an existing client? It is both—both are equally important to the firm and require different skills.

Professionals who create additional projects for existing clients:

- Possess strong client relationship skills;
- Are good listeners; and
- Know what keeps clients up at night.

Professional who bring in new business:

- Identify a prospect's pain,
- Offer solutions for the client's specific problems; and
- Request the business.

All firms desire both types of partners; however, another partner type is even more valuable to a firm. It is the partner who not only brings in business for himself, but also brings in business for others in the firm. These partners are harder to find. They think about the firm first, rather than their own work. They know if they make the firm successful, they will be successful. This partner type should be handsomely rewarded.

Traditional rainmakers believe it is only about them. In reality, however, most engagements in larger firms cannot be handled by one person. Rainmakers who are "too full of themselves" should be reminded that they could not handle a large litigation support case by themselves. They need the support of the firm behind them to be successful.

Compensation should not be based solely on new business, and new business should not be overly weighted in your plan. There can be lots of issues with new business, especially from new clients, and all new business is not equally profitable. In addition, new business comes to a firm through many avenues (*e.g.,* word of mouth, marketing activities, and firm name and reputation that has been developed over the years). Good service needs to be rewarded as much as business development.

Personal production

In the majority of firms, most partners have to pay for themselves. Obviously in larger firms, managing partners and department heads have fewer billable hours because their primary responsibility is to lead the firm or department.

Partners need to be technically proficient, run the engagements in a profitable manner, train younger staff members, and above all, keep the clients satisfied and loyal to the firm. These partners usually won't have strong business development or marketing skills. Therefore, don't expect them to become great rainmakers. They should, however, be able to identify and create new business from existing clients.

The production area requires that you use some art when developing the compensation formula. There needs to be a balance between the partner doing all the work and the partner pushing down work to managers and others in the firm. Clients are usually served better when they have contact with several professionals within the firm. Your compensation plan needs to reward partners for doing both.

A partner who can increase the staff's billable hours is more valuable to the firm than the partner who only keeps himself busy. Today, we see more firms focus on gross profits. Of course, some work is more profitable than other work. For example, non-profit has a lower margin than litigation support or tax planning. Nevertheless, each service area should have a profit margin goal set at the beginning of the year.

Firm leadership

Firm leaders need to be compensated based on different criteria, especially in larger firms. True leaders focus on getting the firm to achieve its vision and strategic objectives by: (1) helping the other partners in the firm achieve their goals; (2) setting the firm's vision; and (3) being a role model that represents everything the firm stands for.

Intangible contributions

Each partner should add something to the overall value of the firm. Whether this is through marketing, developing a new process, improving the skills of junior staff, or starting a new service line, these intangible contributions add to the future viability of the firm.

What should your firm do?

Designing a compensation plan is never easy and unfortunately there is no perfect plan. That does not mean you should not try to create a plan that is fair and fairly applied. My experience has shown that a pure formula plan (*i.e.,* eat what you kill) will pull a firm apart and keep partners from working for the betterment of the firm. It has also taught me that a pure entitlement plan (*i.e.,* based on seniority or equity) is equally a disaster.

The best plans look at total compensation. In many firms today, total compensation consists of the following:

- Base;
- Some type of performance bonus;
- Return on equity (or capital); and
- Discretionary element.

The art of creating these plans is to identify how each partner can make the firm better, stronger, and more profitable. Then, set partner goals at the beginning of the year and set a performance budget to reward partners who achieve their goals. Partners must realize that goal attainment is not a zero-sum game. They can all be successful in goal attainment and make more money.

Creating the plan takes time and requires a lot of honest and robust dialogue among the partners. These meetings need to be facilitated so everyone feels comfortable discussing the topic and the partners with the biggest client list or the loudest voice do not take control of the meeting.

Each firm creates its own compensation plan. It is a good plan if it drives the partners to exhibit the desired behavior and achieve the agreed upon results the firm is looking for.
