Why a Compensation Plan by Itself Doesn't Solve the Motivation Problem

Many of us, including myself, thought that the right compensation plan would solve the answer to underperformance and motivation. Over the last ten years or so, firms have moved from a formula-based plan to a pay-for-performance plan which takes into consideration, production, business development, value enhancement and behavioral factors. And, while this has helped place more emphasis on performance, it hasn't been a magic bullet. Too many firms are missing the boat when it comes to motivating partners and staff to perform at a higher level?

There is an interesting article in the August 8, 2015 Wall Street Journal adapted from an upcoming book by Janice Kaplan, "The Gratitude Diaries." She refers to a 2013 survey on gratitude in which some 80% of the 2,000 American respondents agreed that receiving gratitude makes them work harder, but only 10% of the survey respondents managed to express gratitude to others on a daily basis.

It appears that being appreciated is one of the great motivators on the job, even more so than money. That doesn't mean that people will work for free or for low wages. Kaplan refers to another study done by the London School of Economics (2011) that looked at what gets people charged up at work. They concluded that people give their best effort if their work gets them interested and excited, if they feel it is providing meaning and purpose and if others appreciate what they are doing.

So, what is the next step in the evolution of compensation plans for professional service firms, if we believe that appreciation, interesting work, personal and professional career development along with the necessary requirements of billings and business development?

Here are six major trends I am seeing in the professional service firm market when it comes to partner compensation:

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1. Firms are moving away from just measuring revenue that a partner generates. Traditionally, this has been a key statistic.
2. More firms are measuring gross profit margins on clients and books of businesses.
3. Firms are beginning to realize that the right behavior is just as important as a technical or business development competency. Following firm policies regarding time entry, billings and collection are not factored into compensation.
4. The old standbys of production and business development are still there but they are measured not only from a revenue perspective, but also from a profit margin perspective.
5. Partners are not compensated for administrative functions. This does not include leadership positions, such as managing partner, practice areas head, etc.
6. Less of a partner's compensation is guaranteed and more is at risk based on performance.

If you need assistance with your partner compensation plan, please call for a free consultation 952-930-1295 or email me at aaquila@aquilaadvisors.com.

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