ACCOUNTABILITY FOR PERFORMANCE MANAGEMENT (COLUMN 4)

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Now that we are in our fourth column regarding performance, given all that we have covered in the first three, and as promised last time, it is time to pick up on how the managing partner should approach the goal setting process with his/her partners/shareholders.

As I mentioned at the end of my last column, with some negative comments about compensation committees, I now want to turn those comments around and focus them positively where they belong. It is the job of the managing partner to:

- Assess a partner's individual performance against customized goals which can be both quantitative and qualitative in nature;
- Meet with each partner at least quarterly (many do this bi-monthly or monthly) and assess each partner's progress against their goals; and
- Regularly coach partners in behavior and developmental transitions.

Therefore, it is logical, and we believe critical, that a reasonable amount (which means an amount that would be perceived as a motivational amount) of performance pay be reserved for discretionary allocation solely by the managing partner based on partner goal accomplishment.

However, most firms are against doing this. There are two predominant reasons. The first and foremost is that someone in the past, usually a previous managing partner, had too much control over owner compensation. And that power was perceived to be abused. For this reason, partner groups fight the idea of going back to a system that includes any discretionary components.

Please be aware that we are not advocating that the managing partner have control over all of the compensation. We believe that would be an example of excess power for that position. But we do believe, since the job of the managing partner is to manage the partners, that he/she should have some kind of compensation stick to hold each partner accountable to their individualized goals.

The second reason most firms don't like this type of system is that partners simply don't want ANYONE telling them what to do. You might say it is the "So who died and crowned you King?" perspective. Most partners believe that since they have proven themselves over 10-20 years of performance before being named a partner, they have earned the right to do things their way and people need to trust that the choices they are making are for the best use of the resources of the firm.

The problem is … this perspective is riddled with flaws. For example, while we would agree that partners generally prove themselves over long periods of time through their performance, during all of that time, someone or some group was managing them. So why, just because an individual is named a partner, should they move from a managed environment to one with total autonomy? That doesn't make sense. If we have 20 years of good performance being managed, why would we stop doing something that has been working so well? Another flaw is the idea that partners will make the best use of the resources of the firm. Our compensation systems prove that idea wrong all of the time. For example, assume that a partner compensation system focuses on the two most common variables for CPA firms; 1) book of business and 2) personal charge hours. Now consider that a partner has an opportunity to bring in new clients, although the work is at a marginal rate. This work, from the firm's perspective, will tie up scarce resources and provide minimal profitability if any. From the perspective of the partner bringing in the work, he/she will have increased the size of his/her book of business, which is one of the two main performance metrics. Clearly, in this example, the partner would be motivated to accept work that is not in the best interest of the firm.

Another common scenario pertains to charge hours. If a partner is compensated for charge hours, he or she is being motivated to do a certain amount of chargeable work personally. Now consider that a partner has work queued up that he or she is about to do. And in this case, let's also assume that one of the managers with plenty of excess capacity, who also has the skills to do that work, is sitting idle. When partners, in cases such as these, have not overachieved their charge hour goals, they will be motivated to do the work themselves in order to meet their performance requirements. So, instead of doing the right thing, in our view, of always passing down the work to the lowest possible levels to create leverage and free up partner time, they will choose to misuse firm resources. The compensation system in this scenario is motivating the partners to make the wrong decision – to ignore idle resources and do the work themselves rather than passing the work down and freeing up time to do those tasks or functions that only partners can do.

The problem with using examples is that life isn't just black or white. So it actually might be a good idea, in very specific circumstances, for a partner to bring in a deeply discounted project. And for many firms, their survival rests on the partner group generating a certain amount of money. So, with every example, the odds are extremely high that we can give you a positive and negative consequence for any action taken. Therefore, the real message we are trying to convey is that often our own systems and processes provide counterproductive motivation and unintended consequences to the firm's overarching strategies and values. Which means … we can't just rely on each partner making decisions in a vacuum as to what is the right thing for the firm. As past success and personal development continuously demonstrate, organizations operate more effectively when people are managed. And since partners are people, rather than Gods or Superheroes, it makes sense that we put something in place to manage them too.

With this general background in mind, let's dive a little deeper into how a managing partner goal setting process might work.

First, the firm needs to identify a strategy. That strategy, based on the market conditions and the specific situation within the firm, might be strategic (long-term focused) or tactical (12-18 months focused). Regardless, the partner group needs to decide on where the firm needs to be going in order to drill down to the next level. Notice that we clearly said the partner group needs to determine strategy … not the managing partner. While the managing partner can come to the strategic planning meeting with research, ideas, and even a draft of a plan, it is up to the partner group to determine direction. A managing partner setting direction is another example of someone wielding too much power in that position. Now, if the managing partner is also the majority shareholder or owner in the firm, then as managing partner, while he/she shouldn't be permitted to determine the firm's strategy, as controlling shareholder, he/she can. So, situations like these muck up best practice discussions because in these cases, one person is filling two roles (what should be accomplished through the attainment of a majority vote of the partners versus reasonable managing partner powers and duties). And the result is often excessive powers extended to the managing partner role which we have seen continue long after the managing partner has lost voting control.

The next step is to break down the firm's strategies into specific objectives for departments, committees/task forces, partners, etc. This is the managing partner's job; to operationalize the firm's strategy. I think it is important based on this last broad statement to digress a little bit. The managing partner does not dictate where to go, but he or she needs to identify the logical steps to get there as well as identify how to utilize the various resources of the firm to make it happen. The controls the partner group has over the managing partner are the firm's budget, processes, policies and strategy. The partner group decides where to go, the powers and constraints for the managing partner to operate within, and the goals the managing partner will be held accountable to achieve. Then, the managing partner determines how to get there, operating within the boundaries established by the partner group. As you can see, there should be a nice separation of duties there with some checks and balances. If the managing partner is deemed to be exercising greater autonomy than expected, then the partner group should create policy or process changes to generate additional boundaries (not step in and make decisions, but rather, put a framework in place for the managing partner to operate within). To be clear, anytime the partner group steps in to manage the day to day operations, they are in effect taking over the managing partner function, which no longer allows them to hold the managing partner accountable.

The hierarchy is simple. The managing partner is accountable to the entire partner group (or board). Each individual partner is accountable to the managing partner. Now, let's continue our dive into the managing partner operationalizing the strategy within the policies, process and budget set forth by the partner group. To keep this simple, because it can get very complex extremely fast, let's say that the firm has three strategies the partner group has mandated:

1. For every partner to spend quality time with their top clients on a routine basis.
2. To close the competency gaps between partners and managers by better developing the firm's managers.
3. To generate greater leverage for each partner so that they can manage more work and increase the bottom line.

These are examples of very common goals set by firms today. So, where does the managing partner go from here?

Continuing to keep our example simple, the managing partner would create goals for each partner in each of these three areas. Because all partners are different, not only in their aptitudes and attitudes, but also due to their specific job duties, current book of clients they manage, current skills of the people they work with, etc., the actual goals for each partner will differ. To be clear, while the goals of the firm are the same for everyone, how they are operationalized can differ dramatically from partner to partner.

As we coach our managing partners in this area, we suggest that their first step should be to create a document that paints these, given our scenario, three strategies with a broad brush perspective and then suggest some customized ideas that they believe can help each partner play their part in achieving the firm's strategic plan. We call this first round "guidance." We want the managing partner to point each partner in the best direction for them to focus. For example, regarding the goal of "improving partner leverage," for a partner who has poor delegation skills, the managing partner might provide guidance like, "I would like you over the next 7 months to push down the responsibility of managing $200,000 of your current workload to our managers John and Becky. Please put together a plan for how this can be accomplished, clients you plan on transitioning, timeframes for the transition, and how you suggest that I monitor this to make sure it happens."

This instruction might be followed with, "As this change is being made, estimate how much of your time will be freed up, as well as how you would like to use that excess time to either fulfill this goal or help you better accomplish one of your other two goals." The point we are trying to make is … during the guidance phase, we are directing the partner as to where the managing partner would like to see change, but still giving the partner the ability to put together a plan that is comfortable to him/her. As well, this allows the partner to build expectations around efforts already being made but possibly being overlooked.

Consider this same goal now for a different partner who is already highly leveraged but with a number of marginal clients. The managing partner's direction might be totally different, like "Identify $120,000 of the least profitable and least desirable work you manage and put together a plan as to what you the firm can do to change the overall profitability of this work. This could include raising fees, turning over client management of some clients to others, firing clients, developing missing skills needed to do the work economically, etc." This instruction might be followed with, "Please put together your plan to approach this, when I can expect the process to be complete and how you suggest I monitor this to make sure it is done." So, clearly, we have the same firm strategy, but when applied to each individual, the direction is customized to the particular strengths or weaknesses of each partner.

Following the "guidance" phase is the partner's suggested approach or the "suggestion" phase. During this phase, the partner responds to the broad direction of the managing partner and puts together their recommended detailed approach for accomplishing that directive, while simultaneously suggesting metrics to be held accountable to, as well as monitoring steps to ensure that the managing partner is kept abreast of the partner's actual performance.

The next round is the "discussion" phase. During this stage, the partner will sit with the managing partner and defend why his/her suggestions are reasonable, comprehensive, fair and in line with firm strategy. Often during this phase, because of the open dialogue, the managing partner gains new insight into the problems or issues as well as a better understanding of the effort being requested.

The final phase is the "directive" phase. This is when the managing partner, at his/her sole discretion, locks in a partner's goals, their relative priority to each other (among the several goals identified for each partner), and the allocation of performance incentives towards each of those goals.

We will stop here and pick up our next column by walking you through an example of the phases and conversations you might have to give you a better feel for the evolution of this process. Until then, you might start thinking about how you can implement this type of approach in your firm. And, if you have a specific goal you are trying to implement in conjunction with a partner situation, feel free to e-mail that to us at bill@successioninstitute.com and we just might put together our example using your situation. Thanks for the time you continue to give us!