THE JOB OF THE MANAGING PARTNER – PART 4

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In our first three columns focused on the managing partner, we covered:

- Managing Partner (MP) definition, considerations and Roles and Responsibilities
- Roles and Responsibilities of the Board of Partners versus that of the Managing Partner
- Generic Partner Group Roles and Responsibilities (or Partner Board)
- Why the MP is the One Charged with Implementation and Accountability
- The role the compensation committee might play in accountability
- Electing, the term of, and dismissing the managing partner
- Notice required when the managing partner is getting ready to retire

In this final column, we will pick up our discussion by covering how to compensate the management partner and related issues. Here is the general definition we use:

> *The managing partner should have a compensation plan unique to that position focused on carrying out the strategic and tactical objectives of the Firm. While there can be some individual performance goals assessed, the bulk of the managing partner's incentive package and focus should be on overall firm performance. The key here is that you don't want an incentive system for the managing partner that is overly focused on individual goals because the real value of this position is in driving firm-wide change.*

The most common question we hear when we get into this topic pertains to "How much of a book should the managing partner maintain while serving in that role?" The question is common because most partners think that, "we can't pay this person if their own personal production doesn't cover more than whatever they are making." Well, this mentality flies in the face of successful businesses everywhere. If you are in a sales organization, that attitude would say that you shouldn't have a sales manager unless he or she was earning their own keep through their personal sales quota. Or if you are running a manufacturing line, the theory would imply that, unless you were working on the line, you wouldn't be earning your pay. The reality of what we find is simply that, as you grow larger, there is more money to be found or made by getting your resources to work together to achieve the common goals of the firm. In a CPA firm, that job falls to the managing partner. And its most critical and scarce resources include the partner group, which surprise, surprise, is a primary focus on the managing partner.

A generalized answer as to what is the appropriate client service load for a managing partner varies by firm size. Before we get into some ranges, it is important to start with this concept. If your firm is $30 million or less in annual revenues, managing partners need to service clients. The reason is very basic, "Partners in CPA firms don't have the same level of trust for MP's who no longer service clients." Once a managing partner becomes totally administrative in his or her work, partners deem them out of touch with what it takes to fill the "client service partner role" in the firm and the MP therefore is not deemed to be in a good position to provide guidance or evaluate a line partner's performance. Given this position, here are some broad and generalized guidelines to answer this question. If your firm generates:

- Less than $2 million in revenues, the managing partner will probably carry the biggest or second largest book in the firm
- From $2 million to less than $4 million in revenues, the managing partner should manage between $1 million and $800,000 of business
- From $4 million to less than $7 million in revenues, the managing partner should manage between $800,000 and $500,000 of client revenues
- From $7 million to less than $10 million, the managing partner should have between $500,000 and $300,000 in book being managed, and
- From $10 million and larger, the managing partner should have around $300,000 in book being managed

As I mentioned, the brackets above are generalized. But the message is very specific. As the firm grows larger, the managing partner's main priority needs to shift from personal billings and managing clients to managing the firm. To do this, the MP needs to be seen as still being in touch with the job of servicing clients, which is why we suggest that managing partners keep some client service responsibility. But before we go on, I want to digress for a second because of another common misconception. Given that we want to limit the number of clients the managing partner is still responsible for, it is important to note that those few clients shouldn't be the smaller clients of the firm; small clients are suitable for managers and principals and maybe even young partners, but certainly not the managing partner. It is the complexity of working with the firm's larger clients that helps the managing partner stay abreast of what the marketplace is expecting in terms of service, quality and competence which then helps him or her better lead, advise and counsel the firm and its individual partners.

One of the biggest problems we run into with firms of all sizes is their lack of implementation ability. That problem rests squarely on the shoulders of the managing partner. But to be fair, the reason for this deficiency is because most managing partners we encounter carry far too large a book for the job they are tasked to do. If the client load responsibility of the MP is too burdensome, then the firm will not only have access to a limited number of hours from the MP to implement strategic changes, but it will get the worst hours he or she has because the management needs will be covered at nights and on weekends. As we introduced in Part 1 of this series, many firms in the critical growth range from about $3 million to $7 million (we referred to them as Eat What You Kill firms moving to the Building a Village or Once Firm Concept) don't believe a managing partner is necessary, so the role really is only a prestigious title bestowed on a the partner with one of the largest books, who typically is less excited about running the firm and more excited about servicing clients. As we have said so many times in our columns, as you grow larger, what helped make you successful in the past, will likely actually undermine your success in the future. And as you grow, the job of the managing partner needs to not only become a real job, but the most important job of the person filling that role. And if you don't make the necessary adjustments to managed book, you will be setting your managing partner up to fail, and more important, setting your firm up to stagnate.

Now before you start transitioning the MP's clients to others, an important question is ask is whether you have the right person in the MP role in the first place. If the person currently filling the managing partner role doesn't want to wake up every morning focusing on the firm first, thinking about ways to approach developing employee competency, holding staff and partners accountable to the firm strategy, implementing changes approved by the partner group, etc., then that person should step down from the managing partner role. Many times the person filling the role of managing partner is really that firm's best rainmaker or one of the best marketing partners in the firm. So, if this is the case and you have a current managing partner that loves to be viewed externally as the visible leader of the firm, but really prefers to find new business and take care of clients, we suggest moving this person to a position such as "Chair of the Board (or Partner Group)." This is actually a better role because it is a visible leadership role with very limited implementation expectation and it allows them to do what they love, but gets them out of the way of someone who actually wants to focus on making the firm better, faster and stronger.

Assuming you have the right person in the MP role and you are reducing the book they manage (therefore the time required to manage the firm is in line with the size of the firm), the next question is "How do you motivate someone who has historically focused on personal achievement to focus on achieving the firm's objectives?" The best answer is for you to put your money where your mouth is; make the majority of the MP's incentive compensation based on meeting the firm's strategic objectives. This means that the managing partner would have a special compensation plan created to motivate that outcome. And while the MP might have some small amount paid for his or her personal performance as a client service partner, the vast majority of the compensation would be tied to firm objectives such as:

- meeting firm profitability targets
- earning a specified average net income per partner goal
- meeting firm growth targets
- building capacity appropriate to meet expected future client demand levels
- ensuring developmental, training and/or competency objectives are being reached for employees
- overseeing certain operational priorities (E.g., retiring partners transitioning clients properly, implementation of major technology changes, successful merger of a new office, etc.)

As you can see from the examples above, the emphasis is on firm performance, not on individual performance. We believe that it is a pretty simple concept: --if you want a managing partner to do the job of the managing partner, create performance objectives that reinforce working on the firm rather than in the firm. There is a general rule CPAs need to understand. CPAs will default to individual goals almost every time if they have a choice because they are easier to accomplish. Firm goals or team goals usually take a back seat to individual goals because they require others to perform and we, as a group of professionals, are much better at just putting our own head down and getting it done. Therefore, when we work with managing partners, especially in the beginning of this redefined governance effort, we put hardly any financial emphasis on individual goals except for one. The common individual goal exception for managing partners pertains to transitioning clients to other partners, principal or managers. For example, we might set up three or four major firm objectives for the managing partner to accomplish along with an individual goal of transitioning $250,000 of client relationships in a given year. We do this because if the managing partner doesn't start transitioning client relationships early on, then he or she will never have the time, or be allowed the time based on client demands, to ensure that the firm achieves its objectives. But understand that virtually no person put in the managing partner role will transition any clients without some protection regarding their future compensation should they be removed from that position (either voluntarily or involuntarily). This is why we suggested the policy in Part 3 that protects the managing partner's compensation should they be removed. If you don't manage the client load of the managing partner, you will never really have one, nor will you be likely to ever experience the real economic or performance benefits this role commonly delivers.

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