

“Eat What you Kill” versus “Building a Village” Re-designing Your Partner Compensation Plan

One of the most difficult areas in a firm to address is partner compensation. This creates a significant problem because partner compensation is foundational to accountability, strategic achievement and change management. So when a firm’s partner compensation system is off course, you can expect the firm success to follow suit very quickly.

The first issue that has to be addressed is that compensation systems should be aligned with the firm’s strategic plan. Interestingly enough, almost every CPA firm’s partner comp plan I have seen, when it was originated, was tied to strategy. However, once the plans are put in place, they rarely change, except for a percentage point adjustment here or there. The good news is that when the compensation system was created, it worked. However, my rule of thumb is ... the more time that passes from the last major overhaul of any compensation system, the more broken it becomes. Given this rule of thumb, it should not be a surprise that I believe that partner compensation plans should be re-created every time a firm updates its strategy or creates new strategic or tactical objectives.

The first generation of a partner comp plan is almost always constructed around some “eat what you kill” basics, like billable hours, book of business, ownership percentage, and firm duties. As you would expect, in very short order, the partners’ are billing a lot of hours, hoarding their clients to keep their book high, and monopolizing key leadership positions.

What is interesting is that the same operating fundamentals that make a firm successful at one size will cause it to plateau and begin to fail at another size. There is a fine line between where the “eat what you kill” model is the best success strategy, versus when it still works but is marginally effective, versus when it stops working all together, versus when it becomes a destructive force.

An “eat what you kill” compensation plan is usually a very good model during the early years of a CPA firm. Why? Because the most pressing strategy of a start-up is to generate revenue, work hard and manage costs by doing as much of the work as possible yourself. This quickly translates in the service business to earning a decent living and being able to pay the bills.

Even when a firm has 5-10 employees, it is usually still small enough for 1 or 2 partners to bill the lion’s share of the revenue. To offset the rising costs of growth, partners typically respond by putting in more hours. But at some point, whether that is at 2,400, 2,600 or 2,800 hours, all that happens is that partners start burning out. With every new project, new client and new staff member, cracks start surfacing.

The biggest crack comes from the pressure from the firms’ real staffing philosophy. People are not being added to build a stronger firm; they are being added so that the partners have gofers available to call upon so that whenever the workload gets out of hand. In other words, while the firm is bigger, nothing has really changed -- the model is still all about the hunter – staff is hired to provide assistance to a partner, which is how additional capacity is generated. Once a hunter’s time is consumed, then to continue to support growth, additional hunters have to be added. And

this is how a \$3 million dollar firm ends up with 5 to 8 partners – way to many partners to support this size of operation.

As firms continue to grow, this “eat what you kill” strategy continues to weaken because the partners are working their butt’s off while the staff are marginally engaged in the process. Because the partners rely on themselves to be the main point of contact with the client, provide the technical skills to do the work, and deliver the project management skills to complete the project, staff is marginally developed. Remember, staff is not being groomed to take over the work, just be of assistance to the partner. From this, an upside down pyramid evolves -- where each worker level is in place to provide overflow assistance to the layer above them since the top layers of the firm are always filling up and working at maximum capacity.

When you move from an “eat what you kill” model to one of let’s say, “Building a Village,” specialization becomes a key differentiator. I am not referring to the traditional definition of specialization here, like consulting, technology, business valuation, etc, but rather to the specialization that avails itself as firms hire more talent (roles, responsibilities, and a constant narrowing of job duties as more skills become available). For example, in the “eat what you kill” model, the partner is involved and plays a role in every aspect/step in the process, from hunting, skinning, hauling, cooking, and eating. The problem is ... the hunter is a critical resource and he/she often gets tied up performing functions that other people could do. The philosophy of the firm has to shift so that it does not try to reproduce autonomous and multi-talented hunters that can do every job, but rather break down the job of the hunter systematically so that different people can be groomed to perform each aspect of the process.

Under the “building a village” model, as the village gets larger and larger, then the definition of a partner’s duties become narrower and narrower, just as do the duties of managers and staff. The single biggest differentiator is that the “eat what you kill” model is designed to leverage the hunters’ time, and the “building a village” model is designed to leverage the overall throughput of the village.

So, how do you make the transition? It starts with partner compensation. It is very difficult to get hunters to give up the control, autonomy, and involvement they have become accustom. And since most partner compensation systems are designed to reward the hunters in the first place, change is very difficult to achieve. However, in my next article, I will outline some fundamental ways to motivate the hunter to change his/her behavior so that it supports “building a village.”