Building a Village" Partner Compensation Plan

During our past 5 columns on Partner Compensation, we have discussed:

- The Eat What You Kill (EWYK) model of operations and how that impacts Partner Compensation
- The most common criteria used in EWYK partner compensation formulas
- The Building a Village (BAV) model or operations and why partner voting has to be addressed to clear the way for changing partner compensation
- Addressing the retirement issue and separating it from partner compensation so that you are finally positioned to create a BAV partner compensation model

Here is the BAV framework that I introduced in column three on this subject (all of my past columns are available via this link or on my website at www.billreeb.com). BAV (versus EWYK) Partner Compensation has to be built around:

- The firm's Strategy;
- Partner individual goals established to support that strategy;
- Developing a clear understanding of what is expected of each partner, both objective and subjective;
- Management being willing to financially reward partners that do what is expected of them and punish those that don't, to the point of being fired, and;
- Providing the managing partner a significant compensation stick to reward or punish behaviors.

It is at this point that partners in a room will say, "Yeah Bill, we get this. So, tell me what a partner compensation plan should look like." And my answer is, "How can I give you an example of something when I am missing the most significant information for the process – your current strategy." So, because writing is a-one way communication medium, I am going to provide some examples of strategy and then talk through examples of partner compensation.

Let's say that your key strategic objective for the next 12-24 months is to change this paradigm: Your partners are spending too much time doing the work in the office and not spending enough time in front of their clients. This sounds like a fairly simple behavior to change, but you will soon see why we spent so much time resolving other issues before we got to this point. Based on my experience, this strategy would have been devised to:

1. Get the partners to stop spending so much time doing lower level technical work;
2. Require the partners to spend more time with their key clients to not only be available for higher level advisory work, but to be more visible, thereby creating more opportunities for the firm to assist those clients (business generation);
3. Force the partners to spend more time training, coaching and mentoring their direct reports to improve the technical competence of that group so that more difficult technical work could be delegated to them;

Once again, now that the points are clarified, this seems simple enough. Let's look at the issues so we can begin developing something. Here are the likely issues that are getting in the way:

- Partners are currently being compensated based on their charge hours and book-size and you are asking them to change from something they have grown accustomed to;
- Typically, the larger booked partners have more top clients to manage than they have time for, and the smaller booked partners don't have nearly enough. Therefore, the group as a whole vacillates between either under-serving some key clients or over-serving some low level clients, depending on the size of book the partner is currently managing;
- Training culturally is considered a marginal activity. Those people that spend time developing others are often considered as performing administrative duties rather than fulfilling key functions of everyone's duty;
- There is too much work in-house to allow the time necessary for training and developing people; the firm needs every person to be at full capacity in order to even get the work done;
- Spending more time with clients means a change in behavior. Many partners are comfortable just processing work on the floor (technical manager level work) and they don't want to have to fill this new role. They are comfortable answering the phone when the client calls, but they don't want to have to proactively initiate these kinds of conversations with their clients.
- For those partners that are interested in learning how to become a better client advisor, they need training on how to do it. The problem is that you rarely can turn this job over to the people that are currently good at this activity because 1) they do it naturally and rarely can teach others how to do it, 2) they leverage their experience and position within the firm (such as being a named partner), which means even if other people mimic them, those people will likely fail because they are not equally equipped, 3) because of their unique combination of skills, natural talent and experience, they may be successful in spite of themselves (in other words, anyone else saying or doing what they do would be tossed out the door), and so on.

Once again, I am creating a fairly simple scenario and you can quickly see how complicated this situation becomes. So, here are some issues you need to be willing to address:

1. Because we dealt with voting in an earlier column, the firm is now in a position to outvote those partners who don't want to change their behaviors because they are happy doing exactly what they are doing.
2. The firm adds this client service requirement to the role of any partner dubbed as a "Client Service Partner." This is not an optional assignment, but at the core of being allowed to remain a Client Service Partner.
3. We need to move clients around to various partners so that all partners have key clients to engage in this process. We want to strive to serve our clients, not over-serve or under-serve them. This means you need to be able to reduce one partner's book of business and give that work to another partner. The reason we addressed the retirement benefit in the last column is to remove the book of business focus from the firm. The partner no longer has to stake his or her future fortune on whose names are on their client runs because the model now rewards them for the overall success of the firm, not just what they can hoard.

4. The firm needs to look through its client list and run off some marginal business, or tell those clients that their work will be delayed for months, or assign that work to a lower level person to manage. The bottom line is we have to free up capacity. We can't create a culture around training if everyone is working at 100% most of the time. Training time has to be built into our pricing, billing rates, project fees, etc. And training starts at the top, not from the bottom up. Partners need to be focused on training managers. Managers need to be focused at training seniors and so on. We have to stop kidding ourselves that we can price all of our work assuming the people doing the work have the skills and experience of a partner. Once again, by changing the way the retirement benefits work, the firm is positioned now to run off clients because book of business is no longer the central asset each partner is trying to protect. However, under the EWYK valuation, often every client, even bad ones (low margin, low realization, low profit, etc.) are important as they are part of the total book that provides the partners with a power-base and leverage over the other partners for privileges, compensation and benefits.
5. We need to lessen, or do away with the partner compensation geared towards charge hours and/or book during this period and just establish some minimum volumes required for each partner.
6. We need to establish the importance of training in this period's compensation model
7. We need to hold role-playing partner training courses on how to fill this new enhanced advisor role.

So, these are some responses we need to be willing to commit to in order make our simple strategy above become a reality. For those partners that are still hoarding their book or won't let go of marginal clients, even after we have rewarded them with equity in trade for their accomplishment – it's time for the managing partner to have a serious talk with them, and if necessary, ask them to resign. If it is the managing partner that is the problem, then be ready to vote him or her out too. It doesn't matter that without them, your firm would not be where it is. Because with them and their current perspectives, you firm will also never be much more than it is now either. The people who want to build their own firm within your firm need to be removed as they will become a virus that will spread throughout your organization. You can't have a partner group trying to move to a "one firm concept (BAV)" when you allow the existence of partners who have a "one-person (themselves)" operating concept.

Finally, here is an example of some variables within a partner compensation formula that might be implemented to support the above. These are just examples. There is no one right or wrong approach – just options you can use to motivate partner behavior to support the firm's strategy. Let's take a look:

Managing Partner Goals

We recommend that the managing partner set goals for each line service partner. We refer to these as Managing Partner Goals. The managing partner provides his or her suggested goals for each partner and discusses them with each person before finalizing them. Under the Managing Partner Goals, for the above case, you might see something like this:

- Managing partner will create a matrix of key clients and visits to be made by each partner pertaining to the clients they manage. The line service partner is required to make those visits, gather specific information (based on a predefined process) and report back to the managing partner (this also could be monitored by the marketing committee, or the marketing director) to update the CRM (client relationship management) system and to strategize regarding likely future opportunities or resources required to adequately service this client.
- Managing partner will work with each partner to determine clients to be moved to other partners.
- Managing partner will work with each partner to identify clients that need to be removed or reconditioned in order to continue to be serviced by the firm (this could be rate/realization, collection, one-off engagement or one of many other issues).

First, a pool of earnings should be set up for use as a portion of partner compensation, over which the managing partner has sole discretion, to reward partners who achieve their Managing Partner Goals. This amount needs to be sizeable – something that will make a difference in partner pay. For the sake of simplicity, because there are numerous ways to get to this number, consider that this amount in total should represent about 15% of a partner's total compensation (including guarantees).

Once that amount is identified and the pool established, and the managing partner has determined what the specifics are for each of these bullets above (working with each partner, but not being manipulated by the partner), he/she will monitor these activities with that partner. Each quarter, or at least semi-annually, the managing partner will inform each partner as to his/her current evaluation regarding progress in each of these areas. At the end of the year, the managing partner will determine what amount of that discretionary pool to bonus a partner based on performance. Amounts not allocated one partner, can be allocated to another partner for overachievement of his or her goals, or if no one has earned an excess, put back for the time being into the unallocated portion of partners' compensation.

So, let's take the bullets above and apply a compensation amount to each (which you don't need to do, but I am doing for the sake of clarifying this example). If you assume that a partner's total compensation is expected to be around $300,000, then the portion allocated or available for hitting the Managing Partner Goals for that partner would be around $45,000. Let's say that $15,000 was assigned to each bullet in this example. And now let's read the managing partner's summary and allocation:

- Partner A did a good job of working the client contact matrix and visiting with his key clients. While he made all of his visits, Partner A never updated the CRM system with the results of his conversations and never strategized with marketing about potential opportunities or resources needed. Partner A's additional business from existing clients did rise over last year amount by an additional 10%.

    - In this case, the managing partner might have awarded "Partner A" $10,000 for this category. He made the visits and realized increased business, but did not do his part to utilize the resources made available to him supporting the marketing function.

- "Partner A" worked with the managing partner and moved $200,000 of client work to other partners. His goal was to move $225,000.
    - In this case, the managing partner might have awarded "Partner A" the full $15,000 since he was working with the firm to accomplish the objectives set forth and significant change had occurred.

- "Partner A" did very little to change the firm's relationship with his "D" clients that were identified at the beginning of the year. 5 clients were specifically targeted to either raise their fees significantly or to tell them we could not continue to service them. There was virtually no movement from "Partner A" to free up capacity or make the work we do more profitable regarding these clients.
    - In this case, the managing partner might have awarded "Partner A" nothing for this category.

So, out of $45,000, the managing partner, in his/her sole discretion, might have allocated $25,000 of the 45,000 total. The $20,000 not allocated to this partner could be used to over-compensate other partners who exceeded their performance objectives.

Note: the managing partner should have a compensation system outside of the normal partner compensation plan, specifically focused on him/her achieving the firm's objectives, and set-up so that he/she does not benefit from decisions to over- or under-allocate earnings to the other partners.

Partner Compensation Goals for Training:

The partners in each department will meet at the beginning of the year to set up training goals and strategies for the upcoming year. This process will identify activities to start doing, continue doing as well as discontinue doing. Each department will have different training focus areas; therefore, the training objectives will likely be unique for each department. However, some fundamental values that will cross all departmental training programs are coaching and mentoring, instilling an attitude and belief that it is the role of everyone to develop our own people (not just trying to hire needed skills from the outside), that each department is working from a hiring plan with a new hire rate sufficient to have adequate staff in the pipeline for the firm's workload, and that leverage will be a basis to analyze the effectiveness of the training plan (leverage is a simple calculation: partner book size, divided by ALL partner time charged against those clients).

Given this, the plan devised for each department has to be agreed upon by the managing partner. And quarterly reviews will be conducted by the managing partner to determine and share his/her perceived progress of each plan.

With this in mind as a strategy for this compensation item, each partner will have an individual compensation amount identified to support his/her contribution to the training effort within the department (called partner training amount [PTA]).

Another factor will be the departmental training performance (DTP). This will be calculated at year end by a combination of:

- a self assessment filled out by the partners within each department as to the achievement of their training objectives (100 percent rating maximum);
- a confidential firm survey, by department, of the employees to determine their attitude towards the training they received during this period (zero to 150% maximum);
- evaluation by the managing partner as to whether the department achieved the training goals established at the beginning of the year (zero to 150% maximum).

From this evaluation, a DTP percentage will be computed.

Next, each partner in each department will confidentially rate the other partners in their department as to their contribution to the training objective, through the managing partner. No partner will rate themselves, just the other partners. This rating percentage is called the "contribution to the training effort" (CTE).

To calculate each partner's training compensation, you multiply the PTA (partner training amount) times the DTP (departmental training performance) times the CTE (contribution to the training effort). So, if a partner had an identified PTA of $50,000 for the training objective, the department's training performance was rated at 90% and the partner's contribution to that effort was perceived by the other partners at 60%, his/her compensation for this initiative would be $27,000.

Now don't get caught up in this approach. This is simply an example of how this might work. There are many different ways to accomplish this objective. However, what is good about this approach, at least in my mind, is that it used departmental goals to get the group of partners working together. It used employee and managing partner feedback to ensure that everyone felt the training really improved. And it allowed the partners to evaluate each other and their contribution. Don't misunderstand this. The partners in a department could have limited expectations of another partner to assist in meeting the training objective, even though he/she might be highly compensated for the effort made, because they agreed in advance for that partner to focus more time meeting a different departmental initiative in the compensation plan.

One more thing; don't read into this that every measure has to be departmentally focused as it doesn't.

Next time, I will cover another example of how a firm might create a partner compensation initiative to impact strategy and partner behavior and then try to wrap up this topic so we can move on to other subjects.