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Gary Adamson • May. 28, 2012



There is a constant topic of conversation both inside firms and at almost every conference. It is the age-old question of partner compensation and "how do you do it". As our firm grew, we evolved from everyone is equal, to the "slip of paper"

approach, to a more goal driven, performance based system. Every firm is a little bit

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impossible to find the mathematical equation that will consistently result in a fair outcome. There are just too many variables that don't fit well in a formula.

Regardless of the details of your plan, several rules or themes will hold true:

1. Judgment is always a critical part of the plan. Even in a formula based system, decisions are made on which criteria get measured and the relative weight of each one.
2. You are working with tangibles and intangibles. Tangibles are the things that we all measure like production, billings, business development, etc. Intangibles are the human factors and more difficult to measure such as leadership and team development.
3. No two partners are alike. You should consider different performance measures and goals based on the individual's particular contributions to the firm.

The following checklist is intended to provide a framework to get you thinking and to help you review your current process. It is not intended to be all inclusive or to fit you perfectly. Every firm truly is different.

- What target percentage of total comp is salary (draw) vs. bonus?
- How much is at risk to the performance criteria? Is total compensation at risk or just the bonus? Consider how much of a potential roller coaster ride that you want.
- Interest on capital, if relevant
- Partner goal setting and results as a part of the process.
- Tangible criteria vs. intangible. How much of both does your plan incorporate? Remember that a significant dose of judgment is involved in both.
- Firm goals for the year are integrated with the comp plan? Knowing what the firm goals are and how each partner makes a contribution is key.

- Is there a discretionary or non-assigned pool of money that can be used by the

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- New business development – up sells, cross sells to existing clients.
- Firm leadership and management.
- Staff mentoring and development.
- “Good of the firm” activities.
- Working capital consumption (WIP and A/R management).
- Job profitability and realization.
- Staff utilization.
- Book of business. Be careful putting too much weight here.
- Charge hours. Be careful putting too much weight here.
- Specific personal or firm goals.
- Successful transition of client responsibilities for a partner nearing retirement.
- Movement of client responsibilities from one partner to another. The comp plan should encourage and enable this to help keep the firm’s rainmakers free and to assure that the client is served by the best partner and team.

What is your process? This includes who is responsible and the timeline. An abbreviated example of a system in a firm with goal setting and a compensation committee might look like:

- The firm establishes overall goals for the year.
- The Managing Partner establishes goals with each partner, integrated with the firm goals and monitors performance with each partner during the year.
- The MP and each partner meet at year end to review achievement of goals and summarize performance.
- The MP makes a recommendation of the year end bonus allocation to the Compensation Committee based on each partner’s performance and the judgment of the MP.

- The Compensation Committee reviews and adjusts, if necessary, the MP

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One size clearly does not fit all firms or partners and, as your firm evolves, your partner compensation process needs to evolve along with it.

Gary Adamson is the President of Adamson Advisory, specializing in practice management consulting for CPA firms. He is an Indiana University graduate and has extensive hands on experience as the recent managing partner of a top 200 CPA firm. He can be reached at (765)488.0691 or gadamson@adamsonadvisory.com. For more about Adamson Advisory, visit www.adamsonadvisory.com or follow the company at www.adamsonadvisory.com/blog and www.twitter.com/adamsonadvisory.

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