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Gary Adamson • Jan. 28, 2013

From the February 2013 issue.

Most firms are faced with the dilemma of keeping long term managers who are major contributors to the firm but for whatever reason are not ready to be equity partners (or who perhaps never will have what it takes to be equity partners).

In the past, most of us would not make the decision to outplace the long term

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Both of these different issues have the same result: the loss of high level, talented people. A relatively new approach to dealing with the problem is gaining popularity in medium to smaller sized firms. It is the no – equity partner position. Some firms call it a principal spot. For other firms there is a small piece of equity and they will call it a low equity partner spot. Regardless, the mission is to create an intermediate level between senior manager and partner. This type of partner position has been a common level on the ladder for the top 100 firms for several years.

Here is an outline of what the position looks like, how it differs from the normal equity partner spot and some considerations to implement it in your firm.

First, the difference between no – equity and equity should be internal only. From the perspective of the public and clients, this is a partner position. Making a new no – equity partner is a big deal and you should celebrate it inside and especially outside the firm, just as you would a new equity partner. These individuals wear the partner title.

In most firms, the no – equity partners function just like the equity partners in terms of serving clients. They probably have been already as senior managers. The differences are typically in how you pay them and whether they receive other partner benefits like buyout and retirement.

Most firms utilize a different compensation plan for the no – equity partners. They may participate in firm profits to some extent but they are typically not in the equity partner compensation plan or year end pool. It is common to see a base salary that is between a senior manager and an equity partner with a bonus potential based on some percentage of that salary or a profit pool separate from the equity partners.

The no – equities make either a very small equity contribution or none at all and they

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Many firms use the no – equity partner position as a preliminary step to admitting someone as an equity partner. In other words, you will spend some time at the no – equity level while developing your book of business or fulfilling whatever additional requirements are necessary. Most of the time, firms will permit someone to remain indefinitely at the no – equity level. I encourage you to establish and communicate the criteria for moving to the equity level as a part of your firm's career development program. The expectations should be clear.

You may also be witnessing the phenomena in your firm where at least one or two generations of your people don't want the same things that we (the older folks) wanted. Their motivations may be different and they just might be happy (happier) with something less than the full equity role that most of us chased. Maybe title and some recognition/differentiation along with minor financial changes are the perfect combination for them.

Consider the no – equity partner position in your firm. It may be the answer to keeping talented people while helping the firm maintain the right leverage and number of equity owners.

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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.

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