CPA

Practice **Advisor**

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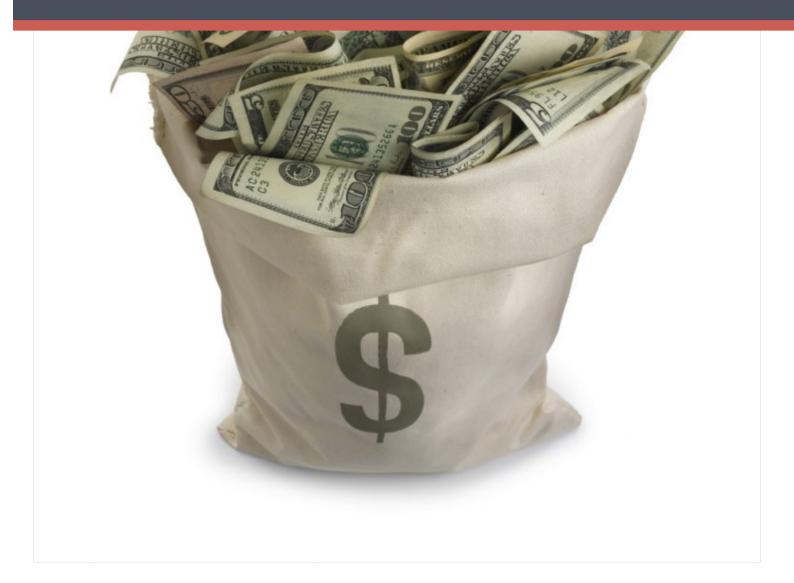
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Oct. 20, 2015

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Question from a Reader:

What should our Managing Partner earn? Our 3.4M revenue firm is comprised of 4 equity partners with income averaging \$231,000. Ownership percentage is the sole determinant of income.

The MP spends a substantial amount of time managing the firm and maintains a \$775-800K book of business. The MP's ownership percentage is 26%, resulting in an income of \$240,000.

SHORT ANSWER:

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the firm. It seems the MP's comp does not provide any compensation for serving as MP. If the MP didn't have these duties, there would be more time available to build up production numbers. If we assume that the MP duties are worth \$25-50K, then this MP has a case for being compensated at \$265-290K.

LONGER ANSWER:

Basing the MP's compensation on MAP survey data is a perilous practice. One cannot simply refer to a chart to make this determination. Many factors need to be taken into account, and every firm is different. A lot depends on the MP's role.

Some MP's truly manage the firm, which includes managing partners' performance and behavior, holding partners accountable and having overall P&L responsibility for the firm.

Other MPs serve more as admin partners. Partner performance and overall P&L responsibility are not expected of the admin partner. Instead, the MP runs partner meetings, oversees internal accounting, prepares the firm's financials, and coordinates systems, recruiting, landlord duties and the like.

The first kind of MP is worth a lot more money than the second..

Main issues that should impact a MP's comp:

- Effectiveness of the MP at truly managing an organization. This may be partially impacted by the amount of time devoted to the job.
- Client base and billable hours. Most MP's of firms under \$15M still have substantial client duties. They could probably do a better job of managing the firm if they were not burdened with as many client duties, but this is the reality of how smaller firms operate.
- Other intangible performance attributes, which could include leading the firm's marketing strategy, developing staff, loyalty, teamwork, etc.

Your present comp system based on ownership percentage:

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Marc Rosenberg is a nationally known consultant, author and speaker on CPA firm management, strategy and partner issues. President of his own Chicago-based consulting firm, The Rosenberg Associates, he is founder of the most authoritative annual survey of mid-sized CPA firm performance statistics in the country, The Rosenberg Survey. He has consulted with hundreds of firms throughout his 20+ year consulting career. He shares his expertise regularly on The Marc Rosenberg Blog.

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