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Compensation

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Transparency defined

Expectations of transparency applicable to compensation committees are: (1) making

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are:

- If the people being judged do not trust the judges, the system won't work. Period!
- Judgments should not be made until a sincere effort has been made to analyze all pertinent information.
- The laws governing the decisions must be consistent and well understood.
- Judgments explained are more readily understood and accepted than those that are not.

If the term “transparency” had been in use when Maister wrote his legendary *Managing The Professional Service Firm* in 1993, the last two items would certainly be prerequisites for CCs to be considered transparent.

Rosenberg's book [**How to Operate a Compensation Committee**](#) explains
► *Characteristics of good systems* ► *Partner goal setting* ► *Make-up of the committee* ► *Open vs. closed systems,* ► *The role of “book of business,”* ► *Performance criteria for partners* ► *Comp Committee timetable* ► *Data reviewed by the CC* ► *Overall best practices.*

The key to a successful compensation committee

The biggest complaint I hear from firms about their CCs is that the group takes on the image of a “smoke-filled back room,” an inner circle of cigar-smoking, powerful politicians, meeting privately to make decisions affecting the larger population.

The key to a successful CC is communication. This communication needs to take place at three times during the year: First, in the beginning of the year, the CC needs to make crystal clear what will be expected of each partner and what each can do that will have the most positive impact on compensation. The second is periodic

monitoring, generally by the managing partner or team leaders, of progress on

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Pilot error

People often proclaim a system or a procedure to be ineffective but in reality, the real problem was execution – pilot error. The same is true of CCs. The Rosenberg Survey year after year shows that the most common partner compensation system by far at firms with 8 or more partners is the CC method. The system works! But it's understandable when partners are frustrated by a CC that fails to communicate with them.

If the only reason given for how your compensation number was set is “the CC decided it,” this is sure-fire evidence that the CC is abusing its power, ignoring its responsibilities or both.

If your firm is considering adoption of the CC system, be absolutely sure that the partners are able and willing to make the commitment to communicate early and often and to operate transparently.

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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