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The most difficult and complicated partner compensation scenario may surprise you – it's firms with 2-3 partners. Why? Because regardless of the system used to allocate income, at the end of the day, each partner has to look the others in the eyes and say, "I'm OK with our final comp numbers. They are fair to all of us. Let's move on."

A partner at a firm in the Southeast recently emailed me this question:

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The remainder of this post addresses the above and includes observations we have made while helping 2-3 partner firms allocate partner income.

3 Musketeers scenario. This is absolutely classic. A two-partner firm may have been created with an “understanding” that one partner is the rainmaker and the other is a self-acknowledged technician. Thinking that both are critical to making the firm successful, they agree to split the income 50-50. But as time passes, the rainmakers inevitably realize that they (1) originate most of the firm’s revenue, (2) manage the relationships of the firm’s biggest clients and (3) their billable hours, though not as high as the technicians, are at a healthy level nonetheless.

The rainmakers realize that they are underpaid, perhaps grossly so. And that’s when the difficulty begins. Instead of the technicians being grateful that their firm is blessed with rainmakers and rewarding them accordingly (a situation that puts a lot of money in their pockets!), they get upset that the rainmakers are reneging on the original deal. Compounding matters, the technicians often stubbornly insist that working the billable hours is just as important as originating revenue and managing client relationships. We often find that the technicians are doing staff-level work instead of partner work.

A compensation formula. There’s no question that firms are best served by operating as a firm vs. the silo model. But at very small firms, there is a limit to how much the partners are able to work together on the high volume of small clients they typically handle. So, well-conceived formulas may work for these small firms.

The one I like the best is the 20-50 system: Partners receive credit for 20% of their client base and 50% of their billable time (rate x hours x realization). Some trial and error adjustments are always necessary, but the system can work. Perhaps the 20-50 system can work for the two-partner firm described earlier.

The partners' presence in the firm. Small firms' partner compensation challenges

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roughly equal, or if there were performance gaps, the partners were in survival mode and avoided arguments over compensation. But as the years rolled along, the gap between each partner's performance widened.

“...but I do the firm's admin work.” At many small firms, one of the lower performers (please understand that there are no good guys and bad guys; they are just different) often does admin work. The problems start when these partners make a case for earning the same as higher performers. The firm would be much better off hiring a firm administrator for a fraction of a partner's salary. Don't pay partners a partner salary for doing firm administrator work.

What the one-firm concept does NOT mean. Nowhere in the literature of the one-firm concept does it say that all partners must be equally paid. One has nothing to do with the other. Successful, team-oriented organizations in *any* business have people who are much more highly paid than others.

“I want more comp because I use less labor.” Many of us remember the terrible disagreement at Arthur Andersen years ago. The consultants argued with the CPAs that they made more money for the firm and deserved a bigger slice of the pie. They never could agree so they split up.

The partner who emailed his question earlier believes that his compensation should increase because he uses less staff labor. Sorry, sir. This is not a one-firm concept. You don't want a situation where partners perform staff level work simply to “game the system” and prop up their own compensation. iAt all times, firms should want their partners delegating work to staff to develop their skills.

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