

**COMPENSATION COMMITTEE
DECISIONS THAT NEED TO BE MADE**

1. If the committee is appointed, decide when this will be done. If elected, decide when elections will be held and set future dates.
2. Decide how many members will be on the CC, including the MP.
3. Decide term of office of CC members. Terms should be staggered so that a minimum number of members leave the committee each year.
4. Should the CC and the management/executive committee be the same or separate?
5. What will be the performance criteria that the CC will use to evaluate the partners?
6. Decide if the CC will function as management or if it will be strictly limited to allocating the income. If the former, the main “management” part of their job could include some or all of the following:
 - a. Decide on the performance criteria for partners in the firm.
 - b. Coordinate the goal setting process, meeting with the partners and approving their goals.
 - c. Communicating with the partners at the beginning of each year and at the end of the year.
7. Decide what the structure of partner compensation should be. Should it include some or all of the following tiers and what percentage of total partner income should go into each tier?
 - a. Interest on capital. What rate? Accrual basis capital or cash basis?
 - b. Base salary and/or draw
 - c. Bonus
 - d. Other
8. If both a base and a bonus:
 - a. Will the base be determined completely separate from the bonus and thus, the bonus will be a true incentive bonus?
 - b. Will the base really be a draw on the final number and the bonus adjusts the base to the final income number for each partner?

9. If the base is independent of the bonus, what will impact the base?
 - a. Origination
 - b. Client base managed
 - c. Billable hours and dollars
 - d. Realization
 - e. Management of A/R and WIP
 - f. Official internal duties (MP, MC member, CC member, department head, PIC, etc.)
 - g. Ownership percentage
 - h. Significant efforts and investment in building the firm up to what it is today; this could include purchase of outside practices.
 - i. Intangibles (teamwork, nurturing of staff, following firm policies, etc.)
 - j. Other

10. If the bonus is independent of the base, how will it be determined?
 - a. Based solely on achieving goals?
 - b. Based on what the partner did to enable the firm to have a good year (bad year)?
 - c. Extent that partner exceeded his/her production goals?
 - d. Other intangibles
 - e. No guidelines; solely at the discretion of the CC
 - f. Some or all of the above

11. Decide how the progress on goals throughout the year will be monitored and who will do it.

12. Will you use the paper and pencil method as a non-binding guideline? Will you do it for both base and bonus? Who will tabulate it?

13. What information will the CC want to review and who will collect this data? What will the CC use to evaluate each partner?
 - a. Production statistics
 - b. Any evaluations of the partners:
 - Self-evaluation
 - Peer evaluation
 - Upward evaluation by the staff
 - Client satisfaction survey
 - Performance appraisal conducted by a partner's supervisor
 - c. Achievement of formal, written goals
 - d. Performing your role in the firm
 - e. Input from management, especially the MP and department heads
 - f. Non-binding paper and pencil exercise
 - g. Assessment of the extent that each partner lived and breathed the firm's core values
 - h. Anything else the CC considers relevant

14. What will be the reporting year for the above data?
- If your firm is a calendar year-end, when will the committee deliberate? Remember, as a practical matter, you probably won't be able to collect the data until the 3rd week or so of January. The CC needs time to study and review the data, so, their first meeting may not be until the end of January or beginning of February. Communication with each partner would have to be in February. Is this feasible given the busy season?

An alternative is to prepare the data on a basis *other than* a calendar year. An example would be November 1 through October 31 or December 1 through November 30.
 - If you are NOT a calendar year-end, are you comfortable having goals and compensation being done on a basis *other than* calendar year-end?
15. How will the CC members actually make their decisions:
- Group discussions on each partner, followed by MP making initial recommendation, which is then discussed and finalized as a committee.
 - Reach group consensus
16. Determining the compensation of the CC members:
- Dealt with the same as any other partner
 - As each CC member is discussed, he/she leaves the room
17. Communications:
- Will the CC meet with each partner at the beginning of the year to communicate the guidelines that will be used at the end of the year to determine his/her compensation?
 - After the allocations are completed, will the CC communicate to each partner what factors boosted their income and which factors held their income back?
 - Both.
18. Will the system be open or closed? (In an open system, all partners know all partners' income. In a closed system, only CC members know what each partner earned.)
19. Appeal procedures?
- Appeals allowed with possibility of adjusting the numbers.
 - No appeals; decisions of the CC are final (partners always entitled to a "hearing")
20. Approvals required of CC decisions?
- Yes, by full partner group.
 - Yes, by management/executive committee
 - No, CC decisions are final.