PARTNER COMPENSATION
BEST PRACTICES
SMALLER VS. LARGER FIRMS

BEST PRACTICES	SMALLER	LARGER
1. Should be performance based.	Less Wide variation in performance criteria	More
2. Practice develop plays a meaningful role.	Origination→King	Important but other factors have a role.
3. Multi-tier systems make sense: interest on capital, base and bonus.	Fewer tiers; fewer firms with interest on capital.	More tiers; more use of interest on capital.
4. Comp system starts with strategic planning; results in a link between compensation and partners doing what the firm *needs* them to do.	Rare.	More common.
5. Partners rewarded for working hard.	Yes, but coasting happens with some firms.	Yes, but coasting less likely to be tolerated.
6. Teamwork rules. Partners build teams and work well with other partners to team-service clients.	Rare.	More common.
7. The system is perceived to be reasonably fair by most partners, most of the time.	Important for all size firms.	
8. Major performance criteria.	Production gets most of the attention. Little else matters.	• Production stats • Goals • Perform role. • Core values • Intangibles
9. Importance of intangibles.	Virtually ignored.	Important recognition.
10. Comp committee is the gold standard for allocating income because it is the only system that provides for flexibility in the use of sound judgment, input from management and a balance between traditional production metrics and intangibles.	Formula most common until firm gets to 7 or 8 partners. Mgmt stipend needed.	CC most common once a firm gets to 7 or 8 partners.
11. Make-up of comp committee.	Jury	Management
12. The MP and the management team should have a significant impact on how partners are compensated because that is needed to hold partners accountable.	Smaller firm partners often won't give this power to one person.	Common.

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13. Communication of how the system works at the beginning of the year. Partners must know the rules of game before they start playing.	Usually a mystery.	More common.
14. Monitoring of progress on goals and performance during the year. If no one watches what you are doing for 12 months, it is unlikely that a partner will meet performance expectations.	Almost never.	More common but not great.
15. Communication between CC and each partner at the end of the year. Judgments explained are much more readily accepted than those that are not.	Almost nothing.	More common but not great.
16. Use of partner evaluations, including upward evaluations of the partners by the staff.	Very rare.	More common but not great.
17. Use of partner compensation to manage partner performance.	Near-total reliance. Partners often refuse to be accountable so the only way to "send a message" is via compensation.	One of several techniques. Larger firms understand that compensation is not the best way to manage partners.
18. Open vs. closed system.	Very rare. Partners feel they have the inalienable right to know everything that goes on in the firm.	More common but does not become the gold standard until a firm gets to 15-20 partners.