MANAGING PARTNER COMPENSATION APPROACHES

RECOMMENDED RANGE AND COMPENSATION | PLAN TYPE | COMMENTS

HOURS CREDIT

In the absence of any performance expectations, basic MP services are worth 20-40 hours per month in formula credit at the MP's realized billing rate or a stated rate. If the MP is delivering greater value, as evidenced by the worksheet we provided, hours credit is adjusted upward.

At a minimum, MP hours should count toward billable hours expectations.

This approach allows up to a week a month for administrative work. Many MPs are caretakers of the firm but do not provide strategic benefits. Caretaking falls within the 20-40 hours monthly range.

Firms with savvy MP's who understand how to create strategic and competitive advantages are fortunate. MP's falling into this category deserve more pay.

PROFIT FORUMLA CREDIT
Overhead Relief/
Standard Costing

Standard hours costing to account for the non-billable hours spent managing the firm.

For example, adding 240 to 480 hours (or more depending upon the MP approach) to the denominator in the calculation of overhead cost per hour.

Revenue credit for MP NB Hours

Relevant in profitability based compensation systems. Reducing the overhead allocation results in an increased profit and income allocation for the MP.

Typically, overhead relief is associated with other incentives in the compensation plan including revenue credit.

PERCENT OF FIRM PROFIT

Agreed upon firm profit percentage allocated directly to the MP's income. Setting a profit range as an incentive is best accompanied by another one of the suggested comp approaches. For example, a firm may limit hours credit but offer a profit bonus after a certain threshold net income is achieved.

We rarely see this approach to MP compensation. As we believe that many firms struggle to value the contributions of a managing partner, this is not surprising.

Many small and mid-sized firms need the billable contributions of the MP to survive and firms who struggle with profitability have no excess profit to share.

PERCENT OF REVENUE

The most common range we see is 1% to 2 % of revenue. Firms who want performance-based compensation for MP's, but don't want to spend the time to create other drivers (new clients, admin improvements, associate performance, etc.) can use a % of revenue as a basis for compensation. If revenue goes up the MP makes more and if it declines the MP makes less.

We typically suggest a floor and ceiling on MP comp when a firm's revenue stream is highly volatile. We don't recommend revenue sharing with managing partners who primarily caretake.

Percent of revenue and percent of profit compensation approaches are for firms and managing partners who take the time to outline clear expectations for managing partner service.

For firms who want to try this approach, we suggest combining one of the hours based approaches with a small incentive bonus to start. As performance meets expectations, incentives can increase.

FIXED AMOUNT

Fixed amounts are easy and attempt to compensate for MP service as if it is an operating expense. For example, 5,000 (E.g. 20 hours at 250) per month in addition to participation in the firm's regular partners' compensation plan.

The actual amount is typically a negotiation considering the level of the MP's contribution.

Many lawyers want to limit risk, and a fixed amount that is reviewable periodically is a popular approach.

Fixed amounts have the benefit of certainty for both the firm and the MP. The downside is the fixed amount may not incentivize the extra effort to create strategic and competitive advantages.

SUBJECTIVE BONUS

Subjective bonuses tend to reflect the type of year the firm had. A good year yields a larger bonus and a bad year yields a smaller bonus.

Subjective bonuses tend to lack consistency or are based too heavily on prior year bonus levels. When this happens, bonuses are not related to performance in the current year. Subjective bonuses often miss the mark because they lack any process for managing expectations

OWNERSHIP PAY

Firms that compensate largely on equity may add equity points in the calculation of compensation. For example, adding 2 or 3 percent to the managing partner's equity percentage for compensation purposes. Essentially, this is a profit bonus.

Most often, the MP's equity percentages remain constant as if they were a fully producing lawyer.

Most small and mid-sized firms that use a system that separates compensation from ownership can't use this approach.

Firms that pay all or in part on ownership percentages can use this approach, but typically don't specify how much equity is related to management services.

SPECIFIC INCENTIVES

The diversity of compensation for specific incentives will vary. We have yet to encounter a specific incentives plan, but using the worksheet we provided, it is possible to create one.

We suggest separating the various contributions into categories that are related to keeping existing operations running smoothly, improving the efficiency of existing operations, and creating strategic or competitive advantages. Base pay is related to management and the incentives are related to improvements and attainment of strategic goals.

Working with the MP and the partners using the template provided and a few additional strategic planning tools, a better approach to managing partner compensation is possible. Choosing future managing partners on their ability to manage and to attain strategic goals is recommended, but not always possible.

At the least, compensation discussions can follow a structure to ensure that expectations are clear.