Owner/Partner Accountability and Unity

A dozen years ago, Seattle-based Peterson Sullivan was at a crossroads. The firm was successful but limited by its governance structure. There was no managing partner and no executive committee. The firm's five partners each had a vote on all partnership matters including partner compensation. It was a viable system, but one stretched to its full capacity. To grow, the firm needed to make some changes.

Four years ago, Arizona-based Henry & Horne was not so much one firm as it was three. The practice's Scottsdale, Tempe, and Casa Grande offices operated as separate profit centers. Each office had its own managing partner and kept the profits it generated. Individual partner compensation was determined by a complicated formula. The firm was an $18 million giant, but one in need of an awakening.

Peterson Sullivan and Henry & Horne took similar paths to move to a higher level of growth and success. Both firms addressed two of the key factors in partner accountability and unity—the firm's governance structure and partner compensation.

At Peterson Sullivan, the firm formed an executive committee while growing from five partners to eight partners, said Chris Russell, CPA, managing partner and executive committee member. Firm leadership recognized a need to base partnership compensation on factors beyond what was assessed on a spreadsheet. Over time, the executive committee determined partner compensation and then formed a compensation committee to handle the task. The firm then set up and evolved the governance structure in use today. Partners meet with the partner in charge of their department and in a collaborative process agree to specific goals. The goals vary from partner to partner, based on individual expertise and skills. Partners meet with their department head for a midyear meeting to assess progress, then in a review meeting at the end of the year. The firm's compensation committee bases partner pay on the information gathered at the meeting and on the partner's performance during the year.

The changes have paid off. The firm over the past 12 years has more than tripled in size, to 17 partners and about $25 million in annual fees. A key to the firm's growth has been the steady evolution of the compensation and governance structure and, most importantly, of partner buy-in to that structure, Russell said.

"It wasn't an overnight thing," Russell said. "Every year, we fine-tune it."

Peterson Sullivan encourages partners to make "stretch" goals that align with the firm's overall strategic plan. "It's not necessarily about whether you attain the goal," Russell said. "It's about how much progress you've made."

Henry & Horne began progressing from a loose collection of three offices to one firm by eliminating the managing partner position at the individual offices and naming Chuck Inderieden, CPA, and Chuck Goodmiller, CPA, as co-managing partners for the entire firm. Henry & Horne ripped down the walls separating the firm's three offices. "We don't even track what Scottsdale does vs. Tempe and Casa Grande," Inderieden said.

In addition, Henry & Horne moved away from partner compensation based on a formula to a governance system in which the managing partners work with a compensation committee to determine partner pay. In a system similar to Peterson Sullivan's, Henry & Horne partners co-create their goals with management and work to align those goals with the firm's overall strategy.

"Our approach is not that every partner should be the same," Goodmiller said. "One partner may be highly talented with business development but not as technically strong. When we do have complementary talents, we should use them."

How do Peterson Sullivan and Henry & Horne persuade their partner groups to go along with their accountability and governance systems? Leaders at both firms emphasize the importance of building trust with the partners—a process that takes time and consistency. Peterson Sullivan's system provides explanations to partners on compensation decisions. Henry & Horne emphasizes the importance of dealing with difficult situations early, before they grow bigger.

"It's much easier to fix something when it starts," said Goodmiller, whose firm has grown from an $18 million operation four years ago to a $21 million practice today.