Industry Trends

When Is a Partner Not Productive? *And What to Do about It!*

By Allan D. Koltin

Q: Many firms talk about partner productivity and unproductive partners, but it seems there are many definitions out there for both. How would you define partner productivity and unproductive partners?

A: Actually the two (partner productivity and unproductive partners) go hand-in-hand. Partner productivity is really an analysis of a partner's strengths and potential vs. how well the partner is actually performing. The term "unproductive partner" refers to the relationship between a partner's performance and his or her compensation.

Q: Let's talk about unproductive partners. Can you define them a little more specifically?

A: Yes. I think the first type of unproductive partner is someone who is divisive in his or her relationship with others in the firm. This could relate not just to how partners treat their peers or staff, but also how they live the "core values" and embrace the firm's strategy and vision. Often times, I will find that firms hang on to this type of partner much longer than they ought to. Usually, it is an economic issue (they do not want to lose the profitability that the partner generates for the firm and/or the partner's ability to get new clients). I have found that this type of partner needs to be counseled. Quite candidly, however, it is rare that these partners can be saved or, maybe more importantly, that they should continue to be part of the firm.

The next type of unproductive partner is easier to handle and is purely a compensation or "type of partner" issue. If these partners are getting paid more than their economic worth to the firm, the firm needs to bite the bullet and reduce their compensation accordingly. Unfortunately, all too often, partners have guaranteed units/ownership percentages or stature due to their seniority at the firm and there isn't a mechanism in the compensation plan to reduce the partner's compensation to his or her actual performance level. It could also go beyond a compensation issue and involve the reclassification of a partner from, for example, equity partner to income partner or even from income partner to some position that no longer is worthy of being called partner (at any level).

Q: Where should one start when looking at the issue of partner productivity?

A: I think there are five key areas that need to be analyzed when looking at a partner's performance, which really involves the partner's contribution in one or more of these areas. They are as follows:

- *Lever #1: Business origination.* This is an easy one that measures how much new business the partners bring to the firm. Safe to say, if they have strengths in this area they should have a significant amount of their time earmarked for business origination. Alternatively, if this is a weakness and an area in which the partner is not passionate, we should look at the other levers of performance to determine how to make the partner more productive.
- *Lever #2: Managed book of business.* Let's face it—there are partners who can manage client expectations and relationships better than others. This type of partner should be in charge of a significant book of business (even if you are *not* a "book of business" firm). This is really a unique skill and is not about personal billable hours, but rather about the ability to manage the client relationship, including the overall satisfaction of the client and the profitability on the account.
- *Lever #3: Chargeable hours.* I used to have a partner that I lovingly referred to as "Billable Bob." Billable Bob lived for the billable hour and, quite candidly, wasn't all that good at managing client relationships, business origination, or other related areas. Therefore, his best value to the firm was to have in excess of 1,500 chargeable hours and work on the clients of other partners.
- *Lever #4: Firm leadership/management.* This is a skill set that continues to be unique and in great demand within CPA firms. It doesn't just represent the CEO or COO positions, but includes depart-

ment heads and/or industry niche team leadership. This is something that smaller firms (under $8 million in fees) struggle with to some degree, as these typically aren't full-time positions due to the size of the firm. We find that partners are challenged with a "day job/night job" scenario and it is often difficult to prioritize the balance between working in and working on the business. The big firms do not seem to struggle with this, as they can turn many of these leadership positions into full-time jobs, thus alleviating the conflict and providing greater clarity as to how partners' performance will be evaluated.

- *Lever #5: Unique technical specialty (that the firm can't live without).* There are individuals in firms who have unique technical and/or industry knowledge. These people become invaluable assets to the firm, not just in keeping clients happy, but also in attracting new clients to the firm. Having said that, I will sometimes see situations in which a partner has this great skill, but the partner and/or the firm haven't found a way to exploit it in the marketplace. My commentary is often that while it is great to have partners with these skills, if we (and they) can't take advantage of them, they really don't have much value, and we have to find different channels for these partners to be productive.

Q: How does a firm (and the partner) go about figuring out where the partner's strengths and weaknesses are in the above levers?

A: It usually starts with a self assessment on the part of the partner and follows up with a meeting with firm leadership. This is where perception meets reality and a contract/agreement is typically forged between the two groups. This is also a delicate situation, in that the partner's ego can be hurt, and/or there is quite a bit of room for disagreement. Sometimes it is healthy to involve more than just the CEO and the individual partner in this discussion and possibly have one or two executive committee members and/or an outside consultant help to develop an individual partner's game plan.

Q: Assuming a firm goes through this process and aligns partners' strengths in a manner consistent with the goals and strategic plan of the firm, how do we assure ourselves that the partners will, in fact, be rewarded for their highest and best use of skills?

A: This all comes back to the compensation plan and, hopefully, there is a significant portion of profitability that will be allocated to partners who not only have aligned their individual strengths with the goals of the firm, but also (and more importantly), have gone out and performed at a very high level in those areas. I have seen firms go through the goal-setting process and properly align partners in the most productive manner possible, but then the whole system fails because there are not enough dollars to allocate to partners who have "hit the ball out of the park."

Q: At the beginning of the interview it sounded as though we were talking about how to define unproductive partners. But it sounds as though the definition of that really incorporates other things. Is this correct?

A: You are absolutely right. One can't just call a partner unproductive without first assessing what the partner's strengths and goals are and then asking how those strengths and goals can help the firm achieve its strategic goals for growth and profitability. Once they do that, it becomes very easy to measure how productive a partner is and deal with the issues of compensation, productivity, and other related areas.

Q: Of the five levers that you discussed previously, which one or two typically presents the greatest challenges to a firm?

A: Probably the biggest challenge (especially in light of today's economy) is the great rainmaking partner sitting with a large book of business. Unfortunately for the firm, all too often, it takes the great rainmaker "off the street" because of client demands when, in fact, we could transfer a significant portion of this partner's book to other partners in the firm, thus freeing them up for new business origination. They may have a toe in the water (business origination), but as long as the compensation plan rewards book of business, rarely will they be willing to give it up.

Another example that I see from time to time is a partner with low chargeable hours, no firm management responsibilities, very little business origination, and limited technical specialties. This type of partner is clearly within the definition of "unproductive partner" and needs to embrace at least one of the levers in a much greater way or potentially see a significant reduction in compensation and/or his or her status (equity vs. income partner) at the firm.

One final thought would be that this analysis can't be "all about the numbers." Take the partner that does a great job of continuously "generating new business and passing it out to others." We always have to have a special place in our heart for this type of partner! Quite candidly, in my book, this type of partner is truly a firm's MVP!

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