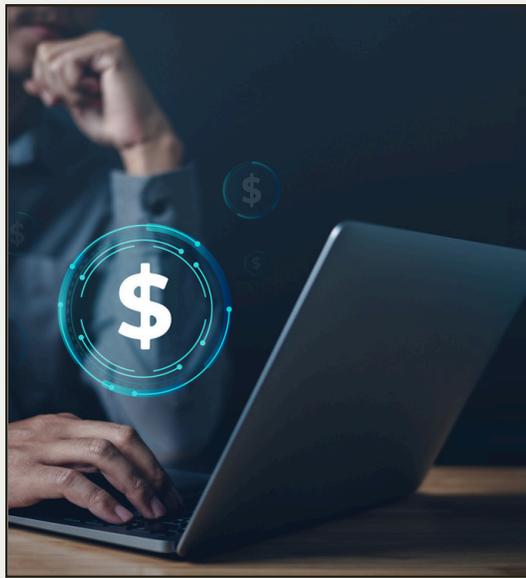


Compensation Planning *Workbook*



A Guide for Professional Service Firms with
Partners

By: Heather Garland

Introduction

This workbook was created to help professional service firms, especially those with partners, build a compensation plan that's fair, structured, and aligned with performance. Inside, you'll find practical tools, sample data, and step-by-step guidance to support thoughtful, strategic decisions.

It's especially useful for managing partners, firm leaders, compensation committees, and finance teams. We've designed it with accounting, law, consulting, and other partner-led firms in mind.

Each section focuses on a key part of compensation planning. Use the worksheets to evaluate your current approach, set clear goals, and document your policies. The templates are flexible, so you can tailor them to fit your firm's size, structure, and unique needs.



Compensation Strategy Overview

Establishing a clear compensation philosophy ensures consistency and alignment with your firm's values, goals, and culture. Think about the topics below. Discuss whether they support short- and long-term objectives.

Define your firm's compensation philosophy.

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Identify strategic goals (growth, retention, succession, etc.).

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Balance performance, equity, and market competitiveness. Which of these pillars has had the greatest influence on our current compensation approach? If we were to shift that emphasis, what potential risks and benefits should we consider?

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Roles and Responsibilities

Understanding each role's contribution helps clarify expectations and align compensation with both effort and impact.

In this exercise, you'll outline responsibilities by role, focusing on equity vs. non-equity partners, and evaluate both billable and non-billable contributions. The Role Contribution and Time Allocation Matrix is designed to help your firm see how leadership and partners distribute their time across key activities. This is critical to ensure compensation reflects not only revenue generation but also contributions like management, mentoring, and business development.

Use the matrix to estimate how each role allocates time. This gives you a baseline for fair, well-informed compensation discussions.

How It Helps:

- Document expected time allocations by role
- Compare billable vs. non-billable contributions
- Understand the full scope of equity and non-equity partner responsibilities
- Support conversations around fairness and role clarity

How to Use It:

- List each leadership or partner role
- Estimate the percentage of time each is expected to spend in various activity areas
- Make sure each row totals 100%, representing a full-time role

Why It Matters:

Partners contribute in ways that often go beyond billable hours, but those efforts can be undervalued if not clearly defined. This matrix brings visibility to each role's full range of responsibilities, helping ensure compensation is aligned with real contributions.

[Download Role
Contribution Matrix](#)

Compensation Components

Use this exercise to get a clear picture of what your total compensation package includes, and assess whether it's aligned, competitive, and well-understood by key stakeholders.

The Inventory of Current Compensation Components helps you capture both the financial and non-financial elements included in partner and leadership compensation. It's a useful tool for spotting gaps, inconsistencies, and opportunities to strengthen your approach.

How It Helps:

- Identify all components of total compensation across roles
- Clarify eligibility for each element
- Understand how each component is calculated or awarded
- Assess whether your structure supports fairness, retention, and performance

How to Use It:

- List each compensation component your firm offers (e.g., base salary, retirement plans, profit share, perks)
- For each item, document who is eligible, how it's calculated or awarded, and the rationale behind it
- Review the full inventory with your leadership or compensation team

Why It Matters:

Compensation is more than a paycheck; it reflects your firm's values and priorities. A clear, comprehensive inventory helps ensure your model is strategic, consistent, and aligned with both internal goals and market expectations.

[Download Inventory of
Compensation Components
Template](#)

Partner Compensation Models

Choose a compensation model that aligns with your firm's culture, growth stage, and strategic goals. The right model should reflect how you value performance, collaboration, and contribution.

Common Models to Consider:

1. Lockstep
2. Merit-Based
3. Formula-Based
4. Hybrid Models

Use this overview to compare the options and guide leadership discussions around what's best for your firm now and in the future.

Lockstep Model

How It Works:

Compensation is tied to seniority or tenure. Partners move through a defined structure (e.g., tiers or points), earning predictable increases over time.

Key Features:

- Fixed progression based on time or position
- Equal or nearly equal profit sharing among peers
- Minimal individual performance differentiation

Pros:

- Encourages collaboration and team stability
- Easy to administer
- Minimizes internal competition

Cons:

- Can demotivate top performers
- Less responsive to performance differences or firm growth goals

Best For:

Firms with a stable partner group, a strong culture of equality, and a long-term approach to firm growth and succession.

[Download Lockstep Model
Template](#)

Partner Compensation Models (cont.)

Merit-Based Model

How It Works:

Partner compensation is primarily based on individual performance. This includes financial results, client satisfaction, leadership contributions, and efforts that drive firm growth.

Key Features:

- Performance evaluated through scorecards or leadership assessments
- Bonuses or variable pay tied to annual performance
- Strong focus on individual goals and measurable outcomes

Pros:

- Motivates high performance and leadership behavior
- Directly links compensation to contribution
- Helps attract and retain top performers

Cons:

- Can lead to internal competition or misalignment
- Requires a fair, transparent, and consistent evaluation process
- Earnings can vary significantly year to year

Best For:

Firms that emphasize growth, innovation, and personal accountability, especially those looking to reward leadership and impact.

[Download Merit-Based Model
Template](#)

Partner Compensation Models (cont.)

Formula-Based Model

How It Works:

Compensation is determined by a fixed formula using objective inputs, such as revenue generated, hours billed, clients originated, or leadership roles.

Key Features:

- Transparent, metrics-driven structure
- Predefined weights applied to each factor
- Common metrics include origination, billable hours, collections, and leadership contributions

Pros:

- Clear and objective, with minimal subjectivity
- Easy to explain and apply consistently
- Scales well as partner groups grow

Cons:

- Can encourage short-term or individual-focused behaviors
- May overlook intangible contributions like culture-building or mentoring
- Risk of rigidity or "gaming the system"

Best For:

Firms that prioritize measurable results, have strong data systems, and want a consistent, low-subjectivity approach to compensation.

[Download Formula-Based
Model Template](#)

Partner Compensation Models (cont.)

Hybrid Model

How It Works:

Blends components from lockstep, merit-based, and/or formula-based models. Part of compensation is fixed or tiered, while the remainder is variable, based on performance, a formula, or both.

Key Features:

- Often includes a base or tiered salary plus bonuses or incentive pay
- May separate equity share or profit distribution from performance pay
- Offers a mix of predictability and performance-based flexibility

Pros:

- Balances equity, motivation, and adaptability
- Supports firms with evolving priorities or diverse partner contributions
- Can be tailored to different roles or career stages

Cons:

- Requires clear rules and consistent communication
- More complex to design and manage

Best For:

Firms in growth or transition, or those seeking a flexible approach to reward both individual performance and shared success.

[Download Hybrid Model
Template](#)

Performance Metrics & Evaluation

This section helps you define what success looks like and how it will be measured. This increases transparency and supports performance-based pay. It looks at quantitative versus qualitative metrics and individual versus team-based contributions.

Define Metrics by Role Template

This worksheet helps you specify the key performance metrics for each role or partner tier and assign weights to each metric based on its importance.

How to Use It:

- List your leadership roles (e.g., manager, equity partner)
- For each role, define 2-3 metrics (e.g., revenue generation, client retention)
- Assign a weight to each metric (e.g., 40%, 30%) to reflect its relative value
- Use the “instruction” column to clarify what success looks like for each role

Why It Matters:

This worksheet promotes role clarity and ensures compensation reflects the right contributions, not just hours billed, but leadership, mentorship, and firm-building work.

Annual Performance Scorecard Template

The scorecard is a performance evaluation tool that tracks actual results against targets, calculates weighted performance scores, and adds context with notes and observations.

How to Use It:

- Fill in each person’s name and role in the firm
- List their assigned metrics (from the first template)
- Enter target and actual performance data for the year
- Assign a score (e.g., 1-5) for each metric based on achievement
- Use the “weight” and “weighted score” columns to calculate total performance impact
- Add comments to capture qualitative observations

Why It Matters:

The scorecard ensures consistency in performance reviews, supports objective compensation decisions, and provides documentation for feedback conversations.

[Download Metrics by Role Template](#)

[Download Annual Performance Scorecard Template](#)

Profit Allocation & Distributions

This section helps you plan how and when firm profits are distributed to ensure fairness, manage cash flow, and support reinvestment. These templates provide transparency, support cash flow planning, and align distribution practices with your firm's compensation model and financial policies.

Distribution Forecast Template

What It Does:

This worksheet enables your team to project quarterly profits, apply reserve policies, and calculate individual partner distributions based on share percentages.

How to Use It:

- Enter projected profits for each quarter based on your firm's financial forecast or budget
- Apply a reserve percentage (e.g, 10%) to set aside funds for taxes, reinvestment, or risk management
- The template calculates total reserve allocation (\$), distributable profit (Profit minus reserve), and each partner's share based on their ownership or allocation percentage
- Review notes and adjust based on the timing of cash flow, strategic spending, or performance variances

Why It Matters:

Partner distributions are often the most significant component of total compensation. Forecasting helps avoid surprises, support responsible cash management, and foster fairness in how profits are shared.

[Download Distribution
Forecast Template](#)

Profit Allocation & Distributions (cont.)

Ownership-Based Distribution Template

What It Does:

This template calculates each partner's share of the firm's distributable profit based on their equity ownership percentage. It is a simple, transparent tool that ensures profit distributions are aligned with ownership agreements and capital contributions.

How to Use It:

- Enter each partner's name in the first column.
- Input the equity ownership percentage for each partner in the second column. The total of all ownership percentages should equal 100%.
- Enter the total distributable profit (after reserves or tax allocations) in the third column.

Why It Matters:

It ensures partners receive distributions in proportions to their agreed ownership. It also makes it easy to communicate how profit shares are calculated, which is especially important when cash flow is tight or distributions are adjusted.

[Download Ownership Based Distribution Template](#)

Succession & Equity Planning

This section helps you ensure long-term sustainability by formalizing how equity is granted, transferred, or bought out. The tools in this section are designed to help your firm proactively manage the transition of equity ownership and leadership responsibilities. Effective succession planning ensures long-term sustainability, preserves firm value, and provides clarity for both incoming and outgoing partners.

Equity Succession Planning Checklist

What it Does:

This checklist outlines the critical steps involved in planning and executing equity transitions, whether due to retirement, promotion, or ownership restructuring.

How to Use It:

- Review the list of key tasks, such as defining buy-in structure, setting valuation methods, creating legal agreements, and communicating with stakeholders
- Assign responsible parties and due dates to each task to ensure accountability
- Use the status and notes columns to track progress and add context
- Revisit the checklist annually as part of your firm's strategic planning cycle

Why It Matters:

Without a clear succession plan, firms risk operational disruption, talent loss, and financial strain. This template ensures that your firm is planning thoughtfully and deliberately for the future.

[Download Equity Succession Planning Checklist](#)

Communication & Transparency

This section focuses on how your firm communicates compensation-related decisions to partners. Effective communication is just as important as the decisions themselves; it builds trust, supports alignment, and minimizes the risk of misunderstanding or conflict.

When partners understand how compensation is determined, why specific decisions were made, and what the outcomes mean for them, they are more likely to feel respected and engaged, even when outcomes vary.

What This Section Covers:

- Who communicates compensation decisions (e.g., managing partner, compensation committee, finance team)
- When communication should happen (e.g., annual reviews, quarterly updates, after major policy changes)
- How to deliver sensitive or complex messages (e.g., private meetings, summary memos, visual dashboards)

Partner Compensation Communication Plan Checklist

This section includes a detailed communication plan checklist that provides:

- A structured outline of key compensation topics to be communicated throughout the year
- Suggested timing and frequency (e.g., annual performance reviews, quarterly profit distribution updates)
- Recommended communication methods (e.g., email, one-on-one meetings, town halls)
- Responsible parties for each communication point
- Example message snippets to help deliver clear, confident, and empathetic messages

Why This Matters:

Transparent communication around partner compensation:

- Reinforces fairness and consistency
- Encourages confidence in the compensation process
- Helps partners understand the relationship between performance, firm results, and rewards
- Reduces the likelihood of confusion, resentment, or disengagement

Communication & Transparency (cont.)

Partner Compensation Communication Plan Checklist

Communication Topic: Annual Compensation Philosophy Review

Audience: All Partners

Timing: Q4, Annually

Communication Method: Presentation + Memo

Responsible Party: Managing Partner

Sample Message: Our compensation philosophy continues to emphasize performance, equity, and retention. This year's adjustments reflect market competitiveness and firm growth.

Communication Topic: Individual Performance Review Feedback

Audience: Individual Partner

Timing: Q1, Annually

Communication Method: 1:1 Meeting + Email Summary

Responsible Party: Department Head

Sample Message: Your performance review reflects strong client leadership and above-target billables. These results informed your 2025 bonus recommendation.

Communication Topic: Bonus Allocation Explanation

Audience: All Partners

Timing: Q1, Annually

Communication Method: Group Meeting + Slide Deck

Responsible Party: Compensation Committee

Sample Message: This year's bonus pool was calculated based on firm profit and individual metrics. Attached is the summary of allocation factors.

Communication Topic: Profit Distribution Updates

Audience: All Partners

Timing: Quarterly

Communication Method: Email Update with Summary Table

Responsible Party: Finance Director

Sample Message: This year's bonus pool was calculated based on firm profit and individual metrics. Attached is the summary of allocation factors.

Q2 distributions will be issued on July 15. Your share is based on a 25% allocation of the \$405,000 pool.

Communication & Transparency (cont.)

Partner Compensation Communication Plan Checklist (continued)

Communication Topic: Annual Compensation Philosophy Review

Audience: All Partners

Timing: Q4, Annually

Communication Method: Presentation + Memo

Responsible Party: Managing Partner

Sample Message: Our compensation philosophy continues to emphasize performance, equity, and retention. This year's adjustments reflect market competitiveness and firm growth.

Communication Topic: Individual Performance Review Feedback

Audience: Individual Partner

Timing: Q1, Annually

Communication Method: 1:1 Meeting + Email Summary

Responsible Party: Department Head

Sample Message: Your performance review reflects strong client leadership and above-target billables. These results informed your 2025 bonus recommendation.

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Q2 distributions will be issued on July 15. Your share is based on a 25% allocation of the \$405,000 pool.

Annual Planning & Review Cycle

The Annual Compensation Planning Process Checklist outlines the key steps, timelines, and responsibilities involved in your firm's annual partner compensation cycle, from strategy review to final communication. It ensures that the process is organized, repeatable, and aligned with the firm's financial goals and values.

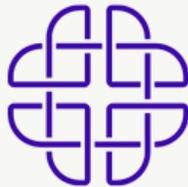
Why This Matters:

Compensation is one of the most sensitive and strategically important areas of firm management. A clear and structured planning process:

- Promotes fairness and consistency
- Increases transparency and accountability
- Aligns partner expectations with firm performance
- Reduces risk of conflict, delay, or miscommunication

Whether your firm uses a merit-based, formula-based, lockstep or hybrid model, this checklist keeps your team on track and provides a framework for continuous improvement year over year.

[Download Annual
Compensation Planning
Checklist](#)



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