Splitting up the Pie: An Analysis of Partner Compensation Systems in Italian Professional Firms

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This article presents the results of a research conducted on the top 100 Italian professional law firms. An accurate review of the literature about professional firms’ management has identified partner compensation as the key topic to be addressed to understand strategic dilemmas of professional firms’ managers. The goal of this research is to identify the skills and behaviours that are mostly rewarded in professional firms among partners. The first phase of the study has been conducted including in the sample the top 100 Italian professional law firms. Results showed that Italian professional firms mostly reward the partners’ ability in business getting and their good external reputation. The second phase of the research will further investigate the criteria of choice involving a panel of selected partners through in depth interviews. Moreover, it will be explored whether the compensation system applied by a professional firm may contribute in supporting the firm’s strategic decisions. This study intends to help professional firms’ managers indicating the criteria to define partners’ compensation and to support internal and external strategy of their firm.

JEL Codes: M10, M51 and M52

1. Introduction

The nature of professional services is changing nowadays, as firms experience greater external demands from clients and greater internal demands from their professionals (DeLong et al., 2007). In fact, clients are becoming more demanding: they expect a higher level of customization and more often compare services of different firms before deciding to which firm assign their issue (DeLong et al., 2007). On the other hand, the lengthening of the partners’ appointment, the pace, the competitive intensity and the workload are greater than ever while economic remuneration has no increased accordingly (Maister, 1997).

Furthermore, in the last three decades, a range of factors have had significant impact on professional firms, including competitive threats from other professions, an intensive use of technology, and the fact that knowledge is depreciating much faster than ever before (Riskin, 2005).

Motivating professionals is harder today than it used to be, and it is more important to the success of the professional service firm. In this environment, senior partners and professional firm leaders face several challenges to effectively manage their firms and retain best professionals.

As Maister (1997) pointed out, the most troublesome topic in professional firm management is partner compensation. Theories of motivation (McClelland, 1975)

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suggest that high-need-for-achievement personalities are motivated by extrinsic rewards combined with very challenging work. Drivers for achievement, power and affiliation determine professionals’ commitment while compensation and bonuses “recognize” and keep score of their results.

Furthermore, the division of profit implicitly communicates accepted behaviours and strategic directions of the firm such as, business development, long-term sustainability, people development, or entrepreneurship.

Even if it is so complex and crucial to the success of a firm, profits sharing in professional firms occur typically following a random and simplistic calculation. It is not uncommon to find firms without any scheme defined and without any performance appraisal and communication plan. Typically, compensation is defined by the founder of the firm and it is personally communicated in accidental circumstances. This method could have worked in the past where law firms were characterized by a low mobility of partners from one firm to another. But as this market develops, many firms will be forced to make significant shifts in the relative rewards they allocate to different types of partners.

A thorough review of the literature about professional firms’ management has identified partner compensation as one of the key topics to be addressed in order to understand strategic dilemmas of professional firms’ managers. Past studies have pointed out the important link between internal strategies of professional firms and their compensation systems. In fact, the compensation system can help strengthen a unified understanding of where the firm wants to go and support the firm’s strategy by rewarding the professionals that create value through particular behaviours considered relevant by the firm’s management. Furthermore, it is widely discussed how to equitably reward partners, considering quantitative and qualitative aspects of performance, but a lack of research and structured models can be found in literature.

This article intends to explore the different systems of partner compensation in order to outline the main criteria applied by professional firms and to make explicit the decision-making process underpinning the division of partnership profits. To the best of the authors’ knowledge, this is the first research conducted on Italian professional firms’ compensation criteria.

The “literature review” section describes the findings of past studies concerning partner compensation systems underlining the link with internal strategies designated by professional firms and highlighting the lack concerning this topic in the literature. The “research design & methodology” section describes the objective of the research and discusses the methodology applied. In the last sections, the contribution of results to the current body of knowledge are presented and future steps are outlined.

2. Literature Review

An analysis of the literature review on professional firms and, in particular, on the compensation systems applied in professional firms, has been conducted. The authors’ main sources have been academic studies, empirical researches and books written by researchers and experts in the field.
This chapter is structured as follows: firstly, the main features of professional firms and the model of their internal and external environment designed by Thomas J. DeLong (2007) are presented. The second section reports the eight most common compensation systems among professional firms, identified by Michael J. Anderson (2011) and discusses their strengths and weaknesses. Finally, in the last paragraph the major challenges in the definition of a compensation system in professional firms as well as the link between professional firms’ strategic objectives and compensation systems are presented.

### 2.1 The Peculiar Characteristics of Professional Firms

Professional service firms are knowledge intensive organisations that provide expert services to clients. Examples of professional services include accounting, engineering, management consultancy and legal services (Lowendahl, 2005; De Brentani and Ragot, 1996).

There are three peculiar characteristics of professional service firms that distinguish them from other types of organizations. First of all, the services they deliver are intangible. In fact, professional firms are organized to create value by selling and delivering promises to their clients. Furthermore, the services provided are very often customised to individual customers’ needs (Nachum, 1999; Fitzgerald et al., 1991; Maister, 1997). Second, in professional firms intellectual capital plays a primary role. In fact, value creation is achieved by highly skilled people, and not through machines and tangible assets, as it happens in other business organizations. Since the main assets are human, a strong recruiting and retention system in professional firms is necessary, as well as the development of an effective knowledge-management program. The third key asset of professional firms are relationships. Given the importance of human assets, the relationships that professionals develop within the firm and with the clients, through customer-centric relationships (Chang and Birkett, 2004), are critical for professional firms’ success. In fact, in many cases the firm discovers that clients were loyal to a specific professional and not to the firm as a whole.

The governance of a professional firm is also different from that of a typical corporation in which owners and shareholders are a different group of people from managers and employees. In professional firms, in fact, the different roles of people (owners, managers, and employees) tend to overlap, thus generating a complex relational context.

Professional firms’ leaders have to manage both the external environment of clients and competition and the internal environment of people and processes. According to DeLong et al., to be successful a professional service firm needs not only to achieve success in each quadrant of the figure below, but also to achieve balance among the four quadrants.
External strategy relates to the development of a unique vision that meets clients’ needs and creates economic value for the firm. Internal strategy involves organizing coherent governance mechanisms, formal and informal structures and compensation systems. External processes ensure that promised services are delivered through client management and the firm’s ability of adaptation to competitive dynamics. Internal processes, finally, concern human capital management (recruitment, training, motivation…), knowledge management and decision making.

Our research is focused on internal processes management in professional service firms. In fact, as previously highlighted, one of the most recurrent issues in any professional service firm is how to equitably reward performance (Millard, 2005).

2.2 The Seven Most Common Compensation Systems among Professional Firms

According to Michael J. Anderson (2001), all compensation systems in use by professional firms around the world fall into seven basic categories (or variations) of these categories: Equal Partnership; Lock-Step; Modified Hale and Dorr; Simple Unit; 50/50 Subjective/Objective; Team Building; Eat What You Kill.

**Equal Partnership**

Based on the assumption that all partners are contributing to the overall performance equally, in this system all partners share profits equally or equally within defined group of partners. For example, senior partners may equally share 60% of the total profits and junior partners the remaining 40%.

In this system individual performance is much less important than the overall firm performance. For this reason equal partnerships tend to be more collegial than partnerships that place more emphasis on individual numbers. In fact, the bigger the pie, the bigger the share of profits will be for each partner.
This allows partners to focus their competitive instincts externally rather than internally. On the other hand, there is a lack of incentives that can lead more profitable partners to leave the firm, since in this system it seems that there is no value in working harder than others.

**Lock-Step**

The underlying assumption is that each partner is rewarded an ever-increasing share of the firm’s profits, based solely on seniority.

Since this system rewards those partners who have stayed with the firm for the longest time, it provides the firm a great deal of stability. It also minimizes discussions of partners’ relative contributions, moving the attention from internal issues to the external challenges, such as winning and serving clients. At the same time, as the equality system, lock-step does not directly reward great performers in the firm and it can lead to resentment of younger partners toward senior partners.

In spite of the weakness of the lockstep systems, some of the most successful professional firms continue to use it. But as Maister highlighted, the lockstep system seems to have survived mostly among firms who have not registered declines in overall profitability: a status that in recent times has become harder to maintain, even for the most prestigious professional firms.

**Modified Hale and Dorr**

In this system partners are grouped in categories and each category gets a certain percentage of the firm’s profits. For example, the firm can have three categories of partners: “finder” (originator of clients), “minder” (responsible for clients) and “grinder” (the partners actually working on the projects). An example of pie-splitting might be: 10% to finders, 20% to minders, 60% to grinders and 10% to a discretionary pool.

Over the years, this system has been adopted by many professional service firms. The Modified Hale and Dorr system rewards the contributions of individual partners more than the equality and the lock-step system. On the other hand, no rewards are built in for non-billable time and the system does not contribute to firm collegiality.

**Simple Unit**

The Simple Unit formula rewards seniority, production, client generation and non-billable activities through an objective calculation.

As the Modified Hale and Dorr, this system rewards individual contributions rather than firm performance. Unlike other objective compensation systems, the Simple Unit formula also takes into account seniority and non-billable time. One of the major drawbacks of this formula is that it promotes individual numbers and there is little value in delegating work or clients. This may result in less collegiality and some animosity among the junior partners as well.
50/50 Subjective/Objective

This system recognizes both the objective and the subjective aspects of a partner's performance. The objective part is based on partners' billings or receipts and on actual client generation statistics. The subjective part is based on the perception of a partner's client handling abilities and of other qualitative criteria.

Some of the major strengths of this system are the fact that it rewards also non-billable efforts (firm management, new product development, etc.) and that it leads to more collegiality among partners. At the same time, one of the weaknesses of the system is that the subjective portion might be open to manipulation, when not backed up by data.

Team Building System

In this system little consideration is given to individual contributions, while the focus is on firm profitability and department performance. It bases 50 percent of a partner's compensation solely on firm's profitability. Another 40 percent is based on a practice group or department's financial performance, and the remaining 10 percent depends on individual performance.

There is little pie splitting animosity since the system is totally objective and it encourages external competition rather than internal one. Furthermore, delegation is usually at a high level, since it is in everyone's interest to push work to the lowest competent level. Among the main weaknesses of this model is that some partners may feel little recognition of seniority and experience. In fact, individual large contributors may leave in search of a firm that will highly reward individual efforts.

Eat What You Kill

The Eat What You Kill system solely rewards individual performance, while it does not recognize anything else beyond personal production. One form of this system charges each partner a share of firm's overheads, but each partner pays the salary of his or her assistant. Each partner "purchases" the time of juniors from the firm and it charges it out to clients at whatever billing rate they think is appropriate.

The major strength of this system is that it provides incentives and motivates partners. On the other side, there is a total lack of responsibility for managing the entity. In fact, since non-billable time is not rewarded, there is no incentive in spending time in firm management, firm marketing or human resources management. Finally, there is little delegation as well as training of juniors.

2.3 Partner Compensation Systems in Professional Firms: A Troublesome Topic

As Maister pointed out, partner compensation is a crucial topic in professional service firms. This is because in the division of profits there are different issues that need to be clarified. For example, the right balance between recognizing current performance and long-term contribution is necessary, but not easy to achieve. When deciding the division of profits, there are many questions that might arise: who should get more, the partner who works more billable hours or the most creative professional? The one who
trains associates well or that excels in the business getting? Also, who in the firm should take these decisions?

In defining a compensation system, another problem arises from the difficulty of judging soft areas (the intangible assets) of performance, such as an effective collaboration with other professionals, an excellent attention to customer service, the ability to build effective business relationships, etc. In fact, the complexity of professional services work limits consumers' and managers' abilities to judge the performance of professional service providers (Goodale et al., 2008).

It is much easier, for example, to measure the billable hour and its conversion into cash (Jarrett-Kerr, 2006). In fact, in many firms the billable hours are the only measure of performance, since they are considered to be directly proportional to the revenue earned, while time not spent on billed work is seen as wasted (Millard, 2005). Such methods fail to reward many important contributions that can’t be measured (a partner that spends time in training juniors, or a partner that solves troublesome administrative problems, the development of new services, etc.) and may lead to the underdelegation problem: partners who are too busy don’t pass on work to others, since numbers are all that count in the compensation decisions (Maister, 1997). In fact, because so much time is devoted to serving paying clients, professionals are challenged in their ability to pursue other aspirations and commitments, such as training young lawyers and rendering pro bono service (Green, 2005).

Compensation decisions operate as internal and external signals of the firm. The information about which features are most rewarded affects the firm’s culture and atmosphere. But, most of all, it influences how partners choose to spend their time. In fact, in many firms partners look to the compensation system as a clue to what behaviour the firm is seeking from its members. In this context, subtle changes in the factors recognized in setting compensation may have relevant consequences in the message sent to the partners about the expectations of performance (Wesemann, 2008).

Professional firms frequently fail to accomplish the goal of motivating partners to focus on behaviours that will make the firm succeed. This happens either because the firm’s compensation committee rewards wrong aspects of performance, or because partners don’t know clearly what is being rewarded (Maister, 1997). In fact, there is often a mismatch between what professional firms say they value in their partners (in terms of performances, skills and competencies) and what they actually reward (Jarrett-Kerr, 2012). The key is to ensure that the behaviour and the activities relevant to achieve the firm’s strategy are identified and that the firm’s compensation system rewards and encourages those activities and behaviours (Millard, 2005).

3. Research Design & Methodology

The aim of the research is dual: on one side, the authors intend to investigate the criteria that different firms consider when they take decisions about profit sharing; on the other side, the authors would like to test whether in Italy the compensation system is designed to support firm’s strategic decisions.

In order to answer the first need and to collect a relevant quantity of data, a survey methodology has been selected, while small focus groups and in depth interviews will
be used in a second phase to understand law firms’ strategies and compensation patterns.

Figure 2: Research Design Phases

Through the review of the literature a relevant study about compensation practices conducted by David Maister among American law firms has been identified.

The scope of Maister’s research was to test how different firms would deal with different types of partners when taking decisions on profit dividends. The investigation achieved great interest, and still today Americans professional firms’ managers utilise it as a point of reference to develop compensation schemes.

It has been decided to adapt Maister’s study to the Italian professional firm’s context in order to assess the validity of Maister’s results in a different context. In particular, the authors intend to verify whether there are different criteria that guide decisions on remuneration of partners in professional firms and whether these criteria are coherent with the achievement of the firm’s business strategy.

For the scope of his research, Maister identified eight archetypal partners of a standard firm and provided quantitative and descriptive information on each. Those who participated in the study were asked to indicate what the compensation would be for each archetype in their firm, relative to the compensation of an average partner.

Here is a brief description of each archetype identified by Maister:

- Partner A, (38-year-old) is the average partner: the typical lawyer;
- Partner B, (34-year-old) is the rising young superstar: young and entrepreneurial, has built a loyal group of associates around him;
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- Partner C, (55-year-old) is the unproductive older partner: seems to have run out of gas; suspect some personal problems at home;
- Partner D, (42-year-old) is the individualistic solo operator: a “prima donna”, likes high visibility cases, a little too glib;
- Partner E, (41-year-old) is the hardworking “back-room” lawyer: “journey-man” lawyer, works hard, but brings in little business, relies on others, a “partner associate”;
- Partner F, (49-year-old) is the executive committee member actively maintaining a practice: tries to do everything, major force in the firm;
- Partner G, (49-year-old) is the struggling branch manager: manages branch office, which has poor profitability;
- Partner H, (60-year-old) is the major rainmaker who doesn’t put in many billable hours: passes on clients and work for others to handle.

Responses obtained through Maister’s study showed significant differences in the pie-splitting practices of different firms. This survey also highlighted the different weights each firm placed on factors of seniority, business getting, billable hours spent, management responsibilities and so on.

A pilot survey has been created for Italian law firms presenting the eight archetypal partners identified by Maister and respondents have been asked to indicate the compensation they would assign to each of the archetypes described, knowing that the total firm profits of the year were 800.

The pilot survey has been sent to a small sample of 10 Italian professional firms. The aim was to receive a feedback on the applicability of the survey to the context of Italian professional firms.

Based on first results and on the collected comments, the survey has been adapted removing 3 categories of data (write-off performance; unbilled dollars and collections performance) of the eight profiles, and changing the wording of data categories and refining the names of partners’ archetypes.

The sample of the survey has been defined following a dimensional and an opportunity criterion. Therefore, the sample included the list of the Italian top 100 professional firms listed in 2012 by the journal “Top Legal” and some relevant firms indicated by opinion leaders of the sector. Every year “Top Legal” publishes a list of the first 100 law firms in terms of turnover in Italy. It also indicates the profits per equity partner, the income per partner, the number of partners operating in the firm, the number of associates, the total number of lawyers, the total number of “of counsel” and of the trainees operating in the firm. The survey has then been sent via email to the selected sample of law firms and in the following section the results emerging from the collected answers will be presented.

In the second phase of the research, in-depths interview sessions to a sub-sample of the respondents will be carried out. The objectives of the interviews will be two: to identify the strategy of the firm and to assess whether the most rewarded partners’ behaviors are the ones that allow the firm to pursue its strategy. Finally a focus group session will be organized to share and validate the compensation patterns identified in the previous phases of the research.
### Figure 3: The survey administered to the top 100 professional firms in Italy

<table>
<thead>
<tr>
<th>Description</th>
<th>Partner A</th>
<th>Partner B</th>
<th>Partner C</th>
<th>Partner D</th>
<th>Partner E</th>
<th>Partner F</th>
<th>Partner G</th>
<th>Partner H</th>
</tr>
</thead>
<tbody>
<tr>
<td>The typical lawyer</td>
<td>Young and entrepreneurial; has built a loyal group of associates around him</td>
<td>Seeks to have run out of gas; suspect some personal problems at home</td>
<td>A prima donna solo operator; likes high visibility cases; a little too glib</td>
<td>“Journey-man” lawyer; works hard, but brings in little business; relies on others; a partner associate</td>
<td>Executive committee member; likes to do everything; major force in the firm</td>
<td>Manages branch office, which has poor profitability</td>
<td>Major rain-maker; passes on clients and work for others to handle</td>
<td></td>
</tr>
<tr>
<td>Department</td>
<td>Corporate</td>
<td>Real estate</td>
<td>Probate</td>
<td>Tax</td>
<td>Litigation</td>
<td>Corporate</td>
<td>Corporate</td>
<td>Corporate</td>
</tr>
<tr>
<td>Age</td>
<td>38</td>
<td>34</td>
<td>55</td>
<td>42</td>
<td>41</td>
<td>49</td>
<td>49</td>
<td>60</td>
</tr>
<tr>
<td>Quality of legal work</td>
<td>Average</td>
<td>Excellent</td>
<td>Average</td>
<td>Excellent</td>
<td>Average</td>
<td>Average</td>
<td>Slightly Above Average</td>
<td>Average</td>
</tr>
<tr>
<td>External respect in community</td>
<td>Average</td>
<td>Excellent</td>
<td>Not known outside</td>
<td>Very Visible</td>
<td>Not well-known outside</td>
<td>Very well-known</td>
<td>Thought to be well-known</td>
<td>Superb</td>
</tr>
<tr>
<td>Cooperativeness with other partners</td>
<td>Average</td>
<td>Not Good: somewhat territorial</td>
<td>Very cooperative</td>
<td>Not very cooperative</td>
<td>Very willing</td>
<td>Very well-liked</td>
<td>Not perceived as cooperative</td>
<td>Not cooperative</td>
</tr>
<tr>
<td>Ability to develop associates</td>
<td>Average</td>
<td>Outstanding</td>
<td>Poor</td>
<td>Poor</td>
<td>Average</td>
<td>Outstanding</td>
<td>Not enough evidence</td>
<td>Not good</td>
</tr>
<tr>
<td>Involvement in the firm management</td>
<td>Average</td>
<td>Not much</td>
<td>Willing but rarely chosen</td>
<td>None</td>
<td>Will serve when asked</td>
<td>Extensive</td>
<td>A great deal</td>
<td>Used to be involved but not anymore</td>
</tr>
<tr>
<td>Billable hours worked</td>
<td>100</td>
<td>141</td>
<td>74</td>
<td>105</td>
<td>115</td>
<td>92</td>
<td>95</td>
<td>35</td>
</tr>
<tr>
<td>Non-billable hours worked</td>
<td>100</td>
<td>152</td>
<td>51</td>
<td>92</td>
<td>60</td>
<td>243</td>
<td>156</td>
<td>150</td>
</tr>
<tr>
<td>Business getting</td>
<td>100</td>
<td>200</td>
<td>25</td>
<td>73</td>
<td>15</td>
<td>175</td>
<td>74</td>
<td>312</td>
</tr>
<tr>
<td>Dollars managed</td>
<td>100</td>
<td>198</td>
<td>33</td>
<td>45</td>
<td>55</td>
<td>129</td>
<td>90</td>
<td>112</td>
</tr>
</tbody>
</table>

All numbers (except for age) are expressed as percentages of the average for all the firm’s partners.
4. Results

The sample of the research included the top 100 Italian professional firms listed by the “Top Legal” journal in 2012. The survey has been sent via email to the selected sample of law firms. A total of 50 answers to the survey have been collected, coming from 43 different Italian law firms. In this paragraph the results of the survey analysis will be presented.

The eight archetypal profiles of partners identified by Maister were presented in the survey, with quantitative and descriptive information on each one. Given a total profit of 800, the respondents were asked to indicate what would be the compensation they would assign to each profile, in splitting the partnership pie.

Profile A’s compensation has been assigned by the research team. Italian professional firms that participated in the survey divided the hypothetical partnership pie of 800 as follows (see Fig. 4).

![Figure 4: The splitting of the partnership pie among Italian professional firms](image)

*Profile A’s compensation of 100 has been assigned by the researchers*

Figure 4 indicates the median compensation for each partner profile resulting from the analysis of the 50 returned questionnaires.

Profile “A”’s compensation (equal to 100) was already given by the research team. Profiles “F” (the executive committee member), “H” (the major rainmaker), and “B” (the young and entrepreneurial lawyer) received a compensation which is higher than the average (100), while the other four (the unproductive older partner “C”, the individualistic solo operator “D”, the hardworking lawyer “E” and the struggling branch manager “G”) received a lower compensation.
More in detail, the profile receiving the highest compensation among all partners is the executive committee member “F” (140). The rainmaker “H” received a slightly lower compensation (135). The young and entrepreneurial lawyer “B” follows with 120. The other four partners were assigned a lower compensation compared to the average partner “A”. In particular, the individualistic solo operator “D” received 89, the hardworking lawyer “E” and the struggling branch manager “G” received 80. The unproductive older partner “C” is the least paid with 53.

The Executive Committee Member “F”

This is the profile that receives the highest compensation among all partners is the executive committee member “F” (140). Italian professional firms rewarded some of his features such as very good business getting ability (175) and very good external reputation. Nevertheless, this profile has several non-billable hours (e.g. managerial activities, new services development, new clients search, mentoring, etc.). Preferring the profile “F” to others, survey respondents recognized the importance of time spent in those activities that don’t may generate revenue in the long term and that can bring about new future perspectives for the long-term strategy of the firm. Finally, it is interesting to notice that the most rewarded partner is not the oldest one: in fact, profile “F” is 49 years old, while profile “H” is 60.

The Major Rainmaker “H”

The second best rewarded profile is the major rainmaker “H”, who gets 135. In fact, he excels at business getting (312, compared with the average of 100), he has the highest seniority and very good external reputation. The rainmaker “H” shares these positive features with the executive committee member “F”. Nevertheless, the rainmaker has also some other features: he has few billable hours (32), poor cooperativeness with other partners and has not a very good ability to develop associates.

The Young and Entrepreneurial Lawyer “B”

After profiles “F” and “H”, the most highly rewarded profile is the young and entrepreneurial lawyer “B”, who is 34 years old. He receives 120, that is 20 percent above the average. Its main characteristics are: excellent business getting ability (200), dollars managed above the average (198) as well as billable hours (141). He also has excellent work quality and an outstanding ability to develop associates.

The Individualistic Solo Operator “D”

The individualistic solo operator “D” receives a compensation of 89. He is characterised by high visibility and excellent work quality. On the other side, this profile’s compensation seems to be limited also due to a low level of business getting and a very low level of dollars managed.

The Hardworking Lawyer “E” and the Struggling Branch Manager “G”

After profile “D”, the hardworking lawyer “E” and the struggling branch manager “G” follow in the ranking. The respondents gave these profile the same compensation level, i.e. 80.
These two profiles are particularly “penalised” by the following circumstances: they both have are not very good at business getting, have a level of dollars managed below the average and do not have high visibility.

**The Unproductive Older Partner “C”**

The profile with the lowest median compensation is the unproductive older partner “C”, who gets 53. In fact, he lacks in the ability of business getting, he has a very low level of dollars managed (33) and has no external visibility. It can be noted that the negative features described above seem to weight more to respondents than the positive features of profile “C”, namely seniority and a very good cooperativeness with other partners.

**Figure 5: The variance of answers in the compensation assigned to each profile**

The researchers also considered variance to analyse the gap between the maximum and the minimum results assigned by respondents to each profile (see Fig. 5). In this analysis, the top and bottom 5 percent of responses have been ignored.

Profile “F” is the one with the highest median compensation. However, given a median value of 140, there is a relevant difference between the minimum (121) and the maximum (175) value assigned to this profile by the respondents.

Respondents also rewarded profile “H” with different weights. This profile was assigned a high median value as well (135), but while some respondents were willing to reward him up to 150, others rewarded him “only” 92, which is less than the firm average.
Profiles “B” and “D” did not obtain wide consensus among respondents too: while some firms rewarded their billed hours and their excellent work quality by assigning them 140 and 120 respectively, other firms penalised them due to profile “B”’s young age and the low level of dollars managed profile “D”, assigning them a minimum value of 52 and 40 respectively.

For the other profiles (“C”, “E” and “G”) there is no significant gap between maximum and minimum values given by respondents. Their performance seems not to be fully satisfying, which lead some respondents to assign a very limited compensation to these three profiles.

5. Discussion of Results

The results of our survey show that the partners’ features that professional firms seem to prefer are the following: high ability in the business getting and a good external reputation.

On the other side, features that seem not to be rewarded are the ability to foster young people’s development and cooperativeness with other partners. In fact, partners lacking some of the soft skills (such as cooperativeness with other partners and the ability to foster young people’s development) are not penalised in terms of compensation.

It is also interesting to notice that the professional firms involved, seem to recognise the importance of activities that do not directly contribute to profit-making, but which can generate future revenues or contribute to improving firm’s competitiveness and efficiency, like for example marketing activities, human resources management, participation at conferences, new service development, etc. As a proof of this, given the same positive performance and features, those partners with a high level of non-billable hours worked are not penalised in terms of the compensation they are assigned.

It is also interesting to compare the results of our survey, conducted on Italian professional firms, to the research conducted by David Maister, through a survey addressed to American professional firms.

In fact, the results show that in Italy the highest compensation is assigned to profile “F”, the executive committee member, whereas in the USA profile “H”, the major rainmaker, is the one that receives the highest compensation.

The two profiles can be said to differ in the following aspects: H isn’t very cooperative with other partners, and is not so good at helping young professionals grow. Therefore, Italian professional firms seem to prefer profile “F”, which doesn’t lack any of the above-mentioned features. It should also be noted that in Italy a younger partner (profile “F”, 49 years old) receives a higher compensation than a more senior partner, like profile “H”, who is 60. On the other hand, provided that profile “H” is not very cooperative and is not good at mentoring juniors, professional firms involved in the American survey seem to mainly consider the business getting ability and the seniority, since this profile’s seniority as well as business getting is higher than that of all the other profiles (including profile “F”, which is above average).
In both countries “F” and “H” are the most highly compensated profiles, followed by “B”, the young and entrepreneurial partner with an excellent quality of work and reputation.

After profile “B”, in Italy the highest compensation is assigned to profile “D”, the individualistic solo operator, while in the USA it is assigned to profile “G”, the struggling branch manager. Other features being similar, the two profiles differ in the following aspects: profile “G” has a higher level of dollars managed compared to “D”, while “D” has more visibility than profile “G”. American firms prefer to compensate “G” more, therefore they seem more sensitive to the level of dollars managed by partners and to their seniority, whereas Italian firms seem to penalise profile “G” due to its several non-billable hours (as he/she is the manager of a firm with low profitability) and favour “D”, the prima donna, with high visibility and excellent work quality.

Both in Italy and in the USA, “E” (the hardworking lawyer) and “C” 8 (the unproductive older partner) are the profiles receiving the lowest compensation.

6. Conclusion and Future Developments

As we have seen in the previous paragraphs, one of the most recurrent issues in any professional service firm is how to equitably reward performance (Millard, 2005), also because in the division of profits there are different issues that need to be clarified. In fact, in looking at a compensation system the most important issues seem to be what specific performance or which behaviors are being rewarded and how partners are being compensated in relation to each other (Wesemann, 2008).

Historically, in professional service firms partner compensation has been a system based on seniority, which minimizes discussions among partners and avoids issues related to the evaluation of soft areas of performance. Nevertheless, as Maister highlighted, today the seniority-based system seems to have survived mostly among firms who have not registered declines in overall profitability: a status that today is becoming harder to maintain for many professional firms. In fact, today professional service firms seem to follow a common trend by moving from seniority-based compensation systems to performance-based ones.

As we have seen in the literature review, in a professional firm a compensation system should also be related to the firm’s strategic goals (Anderson, 2001). In fact, Jarrett-Kerr has identified four main ways in which a compensation model can support the firm’s strategic direction. First, the compensation model can help strengthen a unified understanding of where the firm wants to go. Second, it can support the firm’s strategy by rewarding the professionals that create value. Third, it can encourage professionals to work towards some distinguishing features by enabling the firm to differentiate from competitors. Fourth, it can help a firm to achieve its growth objectives.

Findings of this research tried to bridge the gap identified in literature concerning the specific behaviors being rewarded in professional firms. A limitation of the study relies mainly in the dimension and in the homogeneity of the sample, which is constituted by the top 100 Italian professional firms. A study conducted among a larger number of professional firms, considering not only the top 100, or a study conducted in a different Country would certainly contribute positively to the body of literature on professional firms’ compensation systems and on the criteria applied in their formulation.
In the future developments of this research the authors will try to enrich the current body of literature by testing whether compensation systems of the Italian professional firms effectively support the firm’s strategic direction. An in depth interview session to a sub-sample of the respondents will be carry out. The interviews will allow the authors to assess at what extent compensation systems are designed to facilitate the achievement of the firm’s strategy. The results will also allow to verify whether strategic goals of professional firms are sufficiently clear. In fact, only if strategic goals are clearly defined, the partners’ features to be rewarded can also be clearly decided. A compensation system that rewards these behaviors will then be appropriately implemented and it will support the firm in achieving its strategic objectives.

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