



## **How Much is Enough? Key Factors for Determining Partner Compensation**

*"I'm beginning to think that my lawyer is too interested in making money."*

*"Why do you say that?"*

*"Listen to this item from his bill: 'For waking up at night and thinking about your case: \$25.'"*

It's the butt of many a lawyer joke, but compensation is one of the more complex and emotional issues that confront a law firm. In the billable-hours world of the legal profession, a partner's compensation is a tangible expression of that attorney's value to the firm.

Thus, questions of compensation can be found at the heart of many of the thornier issues that arise within a law firm.

### **What Are You Compensating?**

The basic purpose of a compensation system is to attract and keep the right people in your firm. But that's where the basics end. Systems run the spectrum from objective to subjective, and what ultimately works best for any firm is the system that best fits that firm's culture and strategy.

As important as an effective compensation system is, compensation isn't the primary motivator for every member of the firm. The intrinsically motivated partner (an estimated 6 percent to 16 percent) is not primarily driven by compensation.

Likewise, the struggling performer (another 6 percent to 16 percent) will continue to struggle under a compensation system that rewards positive behavior (unless there is some training to correct performance). These examples aside, there is still a rather large group to whom compensation can be an effective management tool.

## Some Common Denominators

In the end, successful compensation systems share some common qualities:

**Fairness**—To be effective, the system must be perceived as fair by the partners. In other words, there must be agreement that the compensation system recognizes the different contributions that individuals bring to the organization, and that those who are contributing the most long-term value are paid the most.

In *Practice What You Preach*, author David Maister notes that the key to an effective compensation system does not necessarily lie solely in the pay structure. “The determining factor is whether the people think it rewards the right people,” he says. Maister goes on to opine that this sense of fairness must be strongly felt by at least 80 percent of the partners.

In addition to the system itself being perceived as fair, the individuals who actually make the compensation decisions must be perceived as trusted and respected colleagues.

**Simplicity**—The rules of the compensation system should be simple, clear and well understood. Likewise, the rules should be applied consistently from year to year.

**Flexibility**—A good compensation system is flexible and capable of adapting to the changing needs of the firm. Think of it like the U.S. Constitution—grounded in good, basic principles and subject to amendment only after careful, thoughtful deliberation.

**Consistency**—To keep all staff focused on the same firm-wide goals, a law firm’s various compensation systems should be consistent. If the systems for lawyers and staff reward conflicting behaviors, for example, problems can ensue.

**Embraceable**—The system must be embraced by the partners and be consistent with their collective philosophy, background and perspective. To accomplish this, you’ll need to communicate clearly and often how the compensation process works. Talk about the firm’s financial performance and the challenges ahead in remunerating all members of the firm.

## What Should Be Compensable?

The nature of compensation makes selection of compensable criteria difficult. As a general rule, law firms should reward their partners using objective metrics, such as business generated, business managed, personal productivity and the like. But there are some areas that are easily overlooked, including:

**Pro bono work**—It's easy to fall into the trap of thinking that pro bono and other nonbillable activities outside of the law firm have no value (and thus, no merit for compensation). But some firms do see value in the experience that lawyers gain in leadership skills, as well as the exposure they receive to business, political and civic leaders.

**Management duties**—Lawyers who manage their firm's business functions, serve on committees and manage the legal function sacrifice a portion of their practice in order to improve the operation of the organization. These additional duties should have some value assigned to them.

**Conformance to firm values**—Contributions to training and mentoring younger personnel, adherence to and support for firm policies, and the respectful treatment of staff should likewise be accorded some value.

### **What Do Clients Think?**

Above and beyond the impact on partners and staff, an effective compensation system is critical for another reason: Clients are watching. Clients have begun to realize the important role compensation systems play in the behavior of personnel in their law firms.

Many ask law firms to describe their compensation systems. As law firms work to more closely align their value systems with those of their clients, they'll need to focus on rewarding behaviors that serve the clients' interests.

Finally, remember that high-sustained performance is largely the result of doing many things well. In his book *Good to Great*, Jim Collins notes that it all starts with having the right people. "The purpose of a compensation system should not be to get the right *behaviors* from the wrong people, but to get the *right* people on the bus in the first place, and to keep them there."

*An objective outsider can provide invaluable feedback on the often-prickly subject of compensation. Contact our office today to learn how we can help.*