

Get Your Just Desserts (In Compensation)

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Compensation is one of the most often asked about topics among our law firm clients. Typically, firm partners have a number of concerns with compensation, but chief among them is their concern with creating a fair system. This is especially true for newer firms where much of the time is spent finding work or for smaller firms where there may not be resources to dedicate to a compensation committee or managing partner. Recent trends in compensation are bucking traditional models, and the following article may be food for thought when designing your compensation formulas.

Older compensation models typically weigh seniority heavily by rewarding the most senior lawyer an origination fee for each client with whom he or she worked. However, this disadvantaged junior partners who may have been responsible for a majority of the work and, in some cases, maintaining much of the client relationship.

Instead of this system, many firms are compensating partners based on not only the task of originating the client but also their ongoing work with clients. This new system reflects and rewards the notion that multiple attorneys are responsible for cultivating a profitable client relationship. Of course, this creates great difficulty in apportioning credit for each client. Indeed, determining who receives what portion of the credit for each client will be difficult, and we have even seen some situations where the apportionment of credit for each client actually outweighed the income the client brought to the firm. Proper apportionment is vital to ensuring your compensation model is both fair and profitable.

Origination will not be the only area to be addressed by your compensation model as there are a number of other areas in which you will want to reward performance and competence. The following suggestions are some areas on which your compensation model should touch:

- Practice development
- Client Relationship Management
- Professional Development (Staff Training)
- Brand Awareness
- Administration

It is up to your firm to decide the weight in a compensation model for each of the above tasks while avoiding the common complaints, such as a lack of transparency as to what data is used to determine the value of each category or how the compensation model works into the overall firm vision and expansion strategy. Tackling these concerns head on can help you avoid a great deal of consternation down the line as well as the pains of trying to reconcile your compensation model with your strategic vision for the firm. It is also helpful to define each partner's role in the firm so that your partners know to what ends they should be working and how they can best help the firm achieve its vision.

In order to start this process, the firm must first develop its vision. If you are developing a new compensation system, you should provably make sure that strategic plan is current and that it truly reflects the goals you want to achieve in your firm.

Retooling your plan can also help you decide which of your partners will best fit into which roles within your strategic plan.

Your next step should be to discuss what each partner thinks he or she can bring to the table and how those skills will be measured. This step is most successful when it is a two-way process, with the partner offering suggestions and the department chair setting realistic goals based on data available to the firm. Since this is part of compensation, it is important to remember that each partner's strengths should be considered and reinforced by developing duties for which they will be responsible³. This will help both the partner and the firm gain strength where it is needed, and the partner will struggle less with meeting various performance goals. Some firms have also found success with self-evaluations as additional data to consider when doling out compensation at year end.

The firm also must decide how it will handle the formal compensation process, including assessing each partner's performance versus stated goals. This process can be one of the most contentious of the entire compensation process, so having strong policies in place that dictate how the data is to be considered, handled and acted upon is important. If your firm is large enough, you may want to "curve" your goal assessments and develop percentages whereby you expect X% of partners to greatly exceed expectations, X% of partners to exceed expectations and so on. Such a ranking process may make distributing compensation monies easier.

Communication is the final area in which your firm needs to focus as even a stellar compensation process can be derailed by poor communication of the results. Your firm should have a plan in place, along with all requisite support documents and data, for communicating compensation to firm partners. The importance of good communication cannot be understated with regard to compensation.