Is Your Pay Structure Causing a Partner Exodus?

Were most of your partners satisfied when the firm allocated remaining profits last year?

Despite your best efforts, it's unlikely. Indeed, all firms struggle to offer reasonable rewards in a manner that's easily understood and accepted as fair by all owners, yet this is seldom enough to ensure partners' continued happiness. But dissatisfaction with compensation is always sure to send owners fleeing for greener pastures. With this in mind, even if your firm's system has been working well for several years, BCG Attorney Search recommends a review to consider whether the current approach to partner compensation is serving the needs of owners. Below are the questions law firms should ask when reviewing their partner compensation systems. While some of these issues are familiar, others will offer new insights into what it takes to make partner compensation decisions that are appropriate in today's business environment. Issues to consider:
Are partners allowed to offer adequate input? Owners, of course, are essential to your law firm's success, particularly those who have integral management roles, so they must have a voice in the compensation process. The objective is to ensure that all partners better understand what the firm values. One approach: Partners each send a memo to the compensation committee detailing their contributions. The committee then reviews their comments along with statistical data on each partner's origination, hours, production, pro bono activities, cross-selling, and so on.
Does the system mirror your firm's core values and provide incentives for the types of things needed today? Or should you adjust the weighting of such criteria as business origination, amount of fees billed and collected, partners' realization percentage, and the like to reflect new strategic priorities? To increase the perception of fairness, you may have to reevaluate the criteria as well as the percentages offered. Your firm, for instance, may have a formula system that lets partners know that if they bring in a new matter, they will get anywhere from 10% to 25% of the fees collected. With such a clear-cut approach, increasing partners' perceptions of fairness may be as simple as reviewing the applicability of the percentages the firm offers in today's marketplace. On the other hand, if the firm has a subjective system, what one partner views as fair may seem unjust to another. Ideally, all partners should at least be able to understand why certain owners received rewards for their "extraordinary efforts" while others did not.
Is it an open system? Does each partner know what the other partners are making? Are all the data available for partners to see? One managing partner explains that his firm keeps a small part of this information on the network so that it can be reviewed when the need arises. But another set of data is kept in the office of the chief operating officer, although the firm makes it available in the managing partner's office and in branch offices as well. All partners are encouraged to review the information at will, but this firm leader noted that last year only about 15 of 100 or so equity partners took the opportunity to view the data.
Does the system give "adequate" credit for business origination? For how long?
Judging from the comments offered by law firm leaders, practices in this area vary widely, although most firms are moving or have moved away from an "eat what you kill" approach. Only a handful of partners we spoke with say their law firms now offer origination credit in perpetuity. Moreover, a number of managing partners say they encourage and reward rainmakers who split up origination and give credit to others on the team who did work on the matter. Most also say that, at a certain point, their firms rescind or phase out business development credit for ongoing clients, perhaps after three or five years.
How are partners rewarded for cross-selling? For how long? And is credit given for cross-selling equal to that offered to partners who bring in new business? Though virtually all say this is where partners' priorities must lie, law firm leaders differ greatly on the way they offer credit for cross-selling. Some give full credit for a set number of years, while others employ tactics such as offering 100% credit the first year and decreasing the percentage each year thereafter by 10% to 20%. Whatever approach you choose, leaders seem to feel that success is contingent upon selecting one set of criteria that matches your firm's needs and culture.
What are partners' billable expectations? Virtually all firms we contacted track totals on fees billed and collected so they have a good idea of each partner's supervisory responsibilities. Lawyers who bill more than

$1 million a year are clearly not doing all the work themselves; they probably have significant supervisory and management responsibilities. Realization percentages, also commonly tracked, help show how good partners are at managing files. Partners with realization percentages in the 70th percentile, for instance, are likely to have problems managing files appropriately, giving direction to associates under them, or are otherwise doing a poor job of managing.

Who's on your firm's compensation committee? One managing partner offers this description: The firm has a compensation committee of three people who are appointed for life or until the age of 65, whichever occurs first. The committee is self-perpetuating, so whenever a member reaches age 65 or retires, it appoints someone else. The owners can affect that process by amending the partnership agreement, which requires an 80% vote. Also on the compensation committee is a full-time managing partner who sits as a non-voting member. In addition, this firm has an advisory committee, whose members rotate each year, which exists to lend some collegiality to the compensation process. However, this committee (relatively diverse in terms of age and practice area) serves mostly as a check.

Do you use a bonus pool to reward exceptional performers? A majority of the firm leaders say their firms use a bonus pool to build flexibility into the system. One managing partner claims that if you set up such a mechanism, your firm will gain buy-in from all partners and eliminate a tremendous amount of politics from the process.

The Problem With Permanent Origination Credits

In many law firms, originating partners still receive "permanent" credit for all work they perform for the duration of relationships with the clients they brought into the firm. In others, the trend is for originating partners to receive credit for a limited time (usually three to seven years) after which that credit is suspended, although the partner may still be the client's primary conduit within the firm.

If the concept of "permanent" origination credit is still a part of your firm's partner compensation system, now may be the time to make changes and address potential problems. These generally relate to:

The perception that partners who receive permanent origination credit lose their incentive to work as non-originators. These partners no longer have to generate new business from prospects nor must they produce as much personal billable work since they automatically receive a share of the profits from the personal production of other owners. This problem is intensified in firms where non-originating partners inherit origination credit from departing rainmakers.

Lack of incentives for cross-selling the firm's services or expanding client work originated by another partner. Owners claim, perhaps rightly, that it's not worth taking the time to sell to another partner's client when such efforts go unrewarded.

The alternative? Set time limits on origination credits and have partners share origination credit with owners who develop business by cross-selling the firm's services to clients whose accounts were originated by another partner. In addition, offer "maintenance credit" as long as the originating partner completes the following tasks to reinforce the relationship between the client and the firm:

Bring the client in the door and make certain the work is referred to the appropriate practice area and attorney.

Guarantee that the client's work will be performed in a timely, high-quality, and cost-effective manner.

Maintain active contact with the client, keeping in mind opportunities to aid in the development of that client.

Build a personal and professional relationship with the client, and handle any potential or actual problems that arise over the course of the relationship (e.g., processing legal work and collections).

See that whoever is responsible for the work within the firm ensures that client schedules are agreed upon and internal schedules are met.

Oversee timely and appropriate billing and the collection of fees and costs.

Your firm's executive or compensation committee should also review the contributions of partners who receive maintenance credit to determine if this credit should be retained in the same manner or re-allocated to others as changes occur in the client relationship and work performance.

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