

## Definitely Mabey

### How to tell if Your Firm's Compensation is Aligned with its Strategic Direction

*In August 2012 my column in Canadian Lawyer raised the issue of compensation systems being under siege. The column identified the following as some of the reasons why they were under siege at that time:*



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- A change in weighting of firm mindedness versus autonomy
- A generational attitudinal change in how and when to compensate
- Flattening of the marketplace putting heavier emphasis on business development
- An increased importance on managing for profitability

The siege has not only continued but in recent months the frequency with which systems are coming under scrutiny has risen. In addition to the above reasons some new ones have gained prominence including:

- Client succession, general aging of the profession
- Transparency, particularly to lesser earning partners
- Generational bias towards objective versus subjective criteria by the millennials
- Credit for referral (no involvement in handling the matters a.k.a. cross selling) versus origination of work (likely involvement in also doing the work to some degree)

While Canadian law firms report on an accrual basis (billings are revenue whether collected or not) in the absence of aggressive write-off policies there is a growing trend in compensation systems to ignore billings in favour of collected productivity (cash receipts).

While the above are a cross section of the reasons as to why firms are actively reviewing their compensation systems, the end goal of all compensation systems should not be lost - to reward the behaviours that align with / support the firm's strategic plan.

While there are a myriad of approaches to reviewing compensation systems there has historically been less of a focus on the behaviours driven by these systems. Likely in large part due to:

- The level of instinctive skepticism resident in lawyers and their firms
- A preference for the concrete versus the abstract
- An innate instinct for making the simple be complex

In an effort to enable partners to get past these obstacles we have developed a straight forward two-step approach, which for a lack of creativity we have labelled the “compensation gap analysis”.

**Step One - Identify and prioritize the behaviours required to achieve your strategic plan.**

Again there is little rocket science to identifying the types of behaviour that most plans require in order to have a chance of succeeding. The real challenge is achieving a weighted consensus as to their priority.

The following chart can be used in carrying out Step One:

Behaviours that are Required to Support the Strategic Plan	Ranking as to Importance (1 = Highest and 10 = Lowest)
Revenue Generation / Growing the Business	
Superior Earning Potential	
Legacy	
Firm Mindedness	
Reputational Excellence	
Delegation	
Continuous Improvement	
Leadership	
Management	
Respect	
Integrity	
Teamwork	
Compassion	
Trust	

Professional Growth	
Community Involvement / Investment	
Innovation	
Training	
Other	

While the broadest possible completion of this chart by partners is helpful to the process this is not always feasible nor practical but certainly a good cross section of the partnership should be canvassed.

### Step Two - Complete the Compensation Gap Analysis

In this step we take the behaviours identified in Step One and determine where, if any place there is a gap between the desired behaviours and those driven by the current compensation system.

A word of caution when approaching this part of the exercise. It is not suffice to say that the compensation system drives (rewards) the behaviour. The partners need to be able to articulate how it drives (rewards) this behaviour. Remember if it is not transparent to the partners the odds of it even having the desired result are reduced.

The following extension of the chart can be used in carrying out Step Two.

<b>Behaviours that are Required to Support the Strategic Plan</b>	<b>Does The Current Compensation System Reward This Behaviour</b>	<b>How Does It Reward The Desired Behaviour?</b>	<b>Gap</b>
Revenue Generation / Growing the Business			
Superior Earning Potential			
Legacy			
Firm Mindedness			
Reputational Excellence			
Delegation			
Continuous Improvement			

Leadership			
Management			
Respect			
Integrity			
Teamwork			
Compassion			
Trust			
Professional Growth			
Community Involvement / Investment			
Innovation			
Training			
Other			

The fourth column not only identifies the “No” answers from the second column but also indicates the weighted priority that the partners have assigned to that behaviour from Step One.

Obviously if the behaviours in the fourth column are all “8s”, “9s” or “10s” then while some tweaking may be in order, a wholesale change out of the system is likely not necessary.

However, if there are a number of “1s”, “2s” and “3s” in this column the likelihood of successfully achieving the firm’s strategic plan are significantly reduced from the start without wholesale changes to the firm’s compensation system being implemented.

These gaps, combined with the notoriously poor track record of execution in many law firms, will increase the risk of failure to unacceptable levels. Remedial action on the part of the firm’s leadership in general and the partners specifically is imperative.

Remember in the absence of a formal strategic plan your compensation system is your strategic plan! Is it worth following?

**Comments or Questions?**

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