

## Hard as I Try, I Can't Make this Square Peg fit in this Round Hole

In a 2001 edition of *Edge International*, Michael J. Anderson published an article titled *Partner Compensation Systems in Professional Service Firms*.



Stephen Mabey, CPA, CA  
Principal & Managing Director

In the article, he identified seven basic plans which were then utilized as the basis for most professional services firms' partner compensation systems, subject obviously to some tweaks by firms. The plans identified were:

- Equal partnership
- Lock-step
- Modified Hale and Dorr
- Simple unit formula
- 50 / 50 Subjective / Objective
- Team-building
- Eat-what-you-kill

Firms leaning towards more subjective interpretation of partners compensation trend towards lock-step and equal partnership and those leaning towards more objective interpretation trend towards 50 / 50 subjective / objective and eat-what-you-kill systems.

Obviously there are strengths and weaknesses to all of these systems and there is no best one per se as there is no magical system that will satisfy all partners, support all strategic goals and never need to be changed. One of the many pitfalls of law firm management is forgetting about the last part – the need to change and adapt compensation systems to both internal and external changes.

That is not to say that firms don't occasionally tweak their systems in response to pressures mounted by specific interest groups but few adapt them to the real change that they are experiencing inside and outside their firms. After all, isn't success in law firm compensation defined as minimizing the degree of unhappiness everyone has with their current remuneration? At the same time most folks involved in law firm management generally accept the premise that what gets compensated gets done and what isn't, doesn't!

There are many challenges facing the private practice of law including the level of investment required in intelligent technology; the need for greater collaboration in the actual practice of law (yes it is becoming a team sport not to say there are not some gunslingers left); succession planning at the client, lawyer, management and staff levels; and skill transfer.

Yet many, if not most, law firms continue to speak or send messages on desired behaviour to address these challenges but fund something entirely different.. While altruism is not dead in the legal profession it is certainly seriously ill. There are more reasons than I can enumerate but likely include:

- Poor financial returns on investments over the past 10 years

- Increase in the standards of lifestyles despite negative funding
- Retirement savings not matching up to longer life spans
- Disillusionment with life after practice (intellectual pace)

While it should go without saying, let me be perfectly clear, *if you always do what you always did, you will no longer get what you always got! You will get less! Guaranteed!*

***...if you always do what you always did, you will no longer get what you always got! You will get less!***

So to expect the above challenges will be met by partners with a desire to leave a legacy, or from altruism, is a strategy based upon hope and you don't have to look past the recent US presidential elections to see how successful hope is as a strategy!

Firms need to focus on their compensation systems and not necessarily from a view of changing to one of the other seven systems. Rather, they need to focus on the compensation criteria for specific groupings / strata of partners.

The premise is a simple one:

- What law firm need their 30 to 45 year old partners to deliver is different from what they need their 45 to 60 year old partners to deliver and is different again from the desired results generated by their 60 to 75 year old partners (please note the individual age groupings may vary from firm to firm)

From a base line perspective firms need:

- the first group to be primarily production driven with real effort on expanding the firm's book of business;
- the second group while needing to still maintain a reasonable level of productivity need to be leveraging their contacts and bringing younger lawyers along, delegating work and continuing to grow their community (business and societal) presence; and
- the last group needs some productivity and but most importantly is the leveraging of their contacts, ensuring the transition of lawyers on the clients they manage (when the time is appropriate - will vary depending on the client), and passing down their institutional knowledge to younger generations (really creating a legacy understanding / appreciation).

Given the above, why do firms persist in thinking one set of compensation criteria will drive all the desired behaviours? While a rhetorical question, when the scenario is raised with parties outside the practice of law such an approach simply fails to connect the dots on any level for these observers.

***... why do firms persist in thinking one set of compensation criteria will drive all the desired behaviours?***

When you test the approach with members of the legal profession, you get the expected responses including:

- It has to be the same so everyone is pulling their "weight" (*has anyone seen how much time and opportunity cost is being incurred on looking for the magic succession bullet*)
- If the criteria is different some partners will not be viewed as "full partners (*like that doesn't happen already and just may be this is the problem*)
- Too complex to administer (*really some of the best educated / trained minds in dealing with complexity exists within the walls of your firm*)
- We are doing very well with our current system and so why change (*doing very well is both a relative term and has a time frame attached to it of which yesterday is the least important*)

The good news is that some firms are actually starting to consider such an approach and while in the early stages of contemplation, nonetheless they are starting the discussions as to the benefits of such an approach. While they are likely to identify a variety of benefits some of the ones that spring to mind include:

- Transparency for the Millennials and Generation X partners in that they will have a clearer picture of what the relationship of what they are expected to do and their compensation. — a critical issue that is boiling up in many firms
- A real time solution to “success” planning in transition of clients
- A greater understanding and corresponding appetite to deal with change as the partners will see a direct line for the need to be efficiency and collaboration and their compensation
- Attractive to senior lateral hires with books of business
- A healthy move towards “firm clients” away from “my clients”

A change like this needs to be well thought out and properly executed but the upside for those doing so is too huge to ignore and potentially not only will it be a firm differentiator but go a long way towards contributing to the longevity of its success as a firm.

[Comments or Questions?](#)

*Copyright © Applied Strategies Inc.*



Print PDF Version