

## Explaining Compensation Gap Analysis



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Compensation schemes are historically a cyclable topic whose time has come around once again. It has been my experience that when law firms begin a review of their partners' compensation, they start with a system that theoretically fits their needs and then they try to squeeze their firm into the system.

This approach works for some, but for many, it serves to redirect the frustration they were experiencing that made them choose to review their compensation approach in the first place.

To overcome these obstacles, we have developed a straightforward, two-step approach, labelled the "compensation gap analysis".

**Step One - Identify and prioritize the behaviours required to achieve your firm's strategic goals.**

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

### RANK DESIRED BEHAVIOURS

Behaviours Supported by the Firm's Compensation System	Importance Ranking (1=Lowest and 10=Highest)
Revenue Generation/Growing the Business	
Superior Earning Potential	
Legacy	
Firm Mindedness	
Reputational Excellence	
Delegation	
Continuous Improvement of Client Services	
Leadership	
Management	

Respect	
Integrity	
Teamwork	
Compassion	
Trust	
Professional Growth of Skills	
Community Involvement/Investment	
Innovation	
Training	
Involvement in the Profession	
Others (List)	
1.	
2.	
3.	

The above chart is not an exhaustive list but rather a typical list. Firms should customize this list to align with their values and strategic direction for the most significant impact.

### Step Two - Complete the Compensation Gap Analysis

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

Firms should proceed with caution when approaching this part of the exercise. It is insufficient to say that the compensation system drives the behaviour. The partners must articulate **how** it drives the **desired** behaviour. Remember, if it is not transparent to the partners, the odds of it having the desired result are minimized.

### DETERMINE UNSUPPORTED DESIRED BEHAVIORS

Behaviours to be Supported by the Compensation System	Which does the Current Compensation System Support/Drive	Confirm how specifically compensation supports Behaviour.	Gap (Yes or No)
Revenue Generation/ Growing the Business			
Superior Earning Potential			
Legacy			
Firm Mindedness			
Reputational Excellence			

Delegation			
Continuous Improvement of Client Service			
Leadership			
Management			
Respect			
Integrity			
Teamwork			
Compassion			
Trust			
Professional Growth of Skills			
Community Involvement/ Investment			
Innovation			
Training			
Involvement in the Profession			
Others (List):			
1.			
2.			
3.			

The fourth column identifies the "No" answers from the second column and indicates the weighted priority the partners have assigned to that behaviour from Step One.

If the behaviours in the fourth column are all priority "8s", "9s," or "10s," then while some tweaking may be in order, a wholesale change out of the system is not necessary.

However, suppose there are several Nos in this gap column where the priority is "1s", "2s" and "3s". In that case, the likelihood of successfully achieving the firm's desired behaviours or strategic goals is reduced without implementing wholesale changes to the firm's compensation system.

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 by the firm's leadership and partners is imperative.

Remember, without a formal strategic plan, your compensation system is your strategic plan! Is it worth following?

## Who is Stephen Mabey?

Stephen Mabey is a CPA, CA, and Applied Strategies, Inc.'s Managing Director. His credentials include the following:

- Fellow of the College of Law Practice Management (one of 19 Canadians);
- Author of *Leading and Managing a Sustainable Law Firm: Tactics and Strategies for a Rapidly Changing Profession*, and *Key Performance Indicators An Introductory Guide* (Amazon);
- Over 25 years in a senior management role with Stewart McKelvey, a 220-lawyer, six-office Atlantic Canadian law firm;
- Over 14 years providing advice and counsel to small to mid-size law firms on a broad range of issues;
- A panelist and facilitator of the Managing Partner Information Exchange ("MPIE") at the annual Managing Partner Forum Leadership Conference held in Atlanta, Georgia, each May;
- Runs a group mailing list that circulates articles, directly and indirectly, impacting law firms.

Stephen has advised law firms on a wide range of law firm issues, including - strategic action planning, leadership, understudy (succession) planning, business development, capitalization of partnerships, partnership agreements, lawyer & staff engagement, marketing, key performance indicators, competitive intelligence, finance, mergers, practice transitioning, compensation arrangements, organizational structures, and partnership arrangements.

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