

# LAWYER COMPENSATION PLANS

ARTHUR G. GREENE, ESQ.

*McLane, Graf, Raulerson & Middleton, Manchester, NH*

BRUCE HEINTZ

*Heintz Consulting, Boston*

## ALTERNATIVE COMPENSATION SYSTEMS

### *Lockstep and Modified Lockstep Systems*

Compensation in these systems is based on a partner's number of years in the partnership. "Classes" of partners, who became partners at the same time, progress to higher and higher levels of income, up to a point, possibly five years before retirement, when their incomes begin to decrease. In modified lockstep systems, this strict adherence to partner class is modified somewhat by allowing top performers to jump up one or several classes and lesser performers to fall back one or several classes. While very prevalent several decades ago, now less than 13 percent of law firms still use these lockstep systems.

### *Formula Systems*

These systems use preset factors to calculate compensation based on a partner's "statistics" during the year. For example, a system of this type will prorate distributable income to individual partners based on a formula that weights a partner's originations at 35 percent and the value of his or her time changes at 65 percent. Surveys show that less than 10 percent of law firms with

more than 20 attorneys use a formula approach. Firms that employ these types of systems argue that this approach, in the end, produces less "argument" over the income distributions because there are no "judgments" with which to disagree. The difficulties with purely formulaic systems, it is counter-argued, are that the contributions of a partner are many and complex and that two to four simple measurements, e.g., such as one's origination dollars and billed hours, are not enough to take into account the whole picture.

### *Subjective Judgments Based on Objective Data*

In these systems, performance criteria are articulated, much objective data is collected for each partner and a compensation committee "splits up the pie" based on their informed and fair judgments. Subjective systems, while popular (and therefore, the normative "best practice" for law firm reward systems), are highly dependent on the trust partners may have in the "decisionmaking body" as to its diligence in collecting and understanding the performance data and its impartiality. In addition, since the performance criteria in these systems are often stated, but not weighted (e.g., the trade-off between getting business and billing hours, etc.), partners worry about the consistency of judgments made among partners and from year to year (particularly as the membership on the compensation committee changes).

---

Reprinted from *Lawyer Compensation Plans: Avoiding Stress, Difficulty and Disruption Within Law Firms*, 95-18.14-CM, which is available by calling 1-800-966-MCLE.

## DIFFICULT ISSUES FOR THE '90S

### *Realigning Compensation to Match Contribution*

In the last five years or so, income within firms has been redistributed in the following ways:

- from partners with seniority to the partners who are most productive;
- from partners who only bill hours to rainmakers (yet, "New business development is king" has been the norm in law firms for decades);
- from one practice area to another, e.g., from corporate to litigation; and
- from noneconomic contributions to the firm, e.g., activities in the profession, to economically measurable contributions such as billable hours.

### *Dilemma of Individual Versus Firm*

Partner compensation systems are meant to provide incentives to the participants to do all the things a good partner should do, e.g., develop business, take care of clients and bill hours. However, because the actual awards of compensation are based on an individual's performance statistics as compared to other partners', often a partner may be inclined to perform in ways that help his or her own statistics, but suboptimize results for the firm. An example of this is "hoarding" work that really should be turned over to others, either associates or other partners who are specialists.

### *Incentives for Team Marketing*

Buyers of legal services have become more sophisticated, particularly the law departments of large, institutional clients. Being successful at marketing these companies now requires more "team" efforts, including large proposals, multiple contacts, coordination of

services and firmwide pricing arrangements. All this calls for more firmwide coordinated marketing efforts, as opposed to "solo" rainmaker efforts, as might have been effective in the past. Yet, the reward systems of many firms do not provide the incentives to encourage group instead of individual performance.

### *Measurement of New Business Credits*

Because new business development has become such an important performance criteria in law firms, accounting systems to record which partner gets the credit for what business have become needed. However, along with this increased complexity has come a new set of problems. Disputes are arising over who should get a credit, partners are marketing "solo" so they do not have to share credits, etc. Many law firms are now struggling with development of the underlying "rules and guidelines" for splitting origination credits and the accounting procedures to record them for future use by the compensation committee.

### *Differing Profitability of Various Practices*

A decade or more ago, two legal matters of equal revenue usually yielded the firm equal amounts of profit. Since then, it has evolved that some practices are inherently more profitable than others (e.g., because of the ability to get higher billing rates, more leverage, fewer write-offs, quicker payment, etc.). Yet, most law firms' compensation systems currently only include attribution data expressed in terms of "revenue," e.g., "partner X has \$300,000 worth of credit for new business generation" (meaning that this partner developed business that provided that amount of revenue, regardless of what profit it eventually yielded the firm). This current practice of measurement by revenue is generally the norm for both formula systems and subjective ones. However, as profit measurement becomes more accepted, law firms' income distribution systems may have to change accordingly.

*Law Firm Values as the Foundation of  
the Income Allocation System*

The foundation of any compensation system is the firm's values. These are the basic concepts and beliefs that contribute to the firm's culture. Sometimes the firm's values are articulated and stated in writing as the result of long-range planning discussions. Other firms may not have specifically addressed the subject. No discussion of income allocation can take place without identifying and considering the firm's values.

*The Significance of Trends in the Profession*

Income allocation systems must be able to respond to trends in the profession. For example, as the economics of the profession change, so must the reward system. In today's marketplace, law firm expenses have outstripped inflation, clients have become more cost-conscious and most firms need a growing client base. Thus, the origination of clients has become increasingly important. The income allocation system must be flexible enough to adapt to the changing needs of the law firm.

*Using Income Allocation as a Management Tool*

The behavior of individual partners can change dramatically based on their response to income allocation factors. Lawyers will respond to a reward system that compensates them for meeting particular objectives. The care with which income allocation is managed is important. Certain action can trigger behavior that motivates lawyers to attain desirable goals. Other action can trigger behavior that harms the firm. In utilizing income allocation as a management tool, it is critical that care be taken so that the actions will result in motivating positive behavior as opposed to harmful behavior.

Partners tend to have two reactions to the thought of partner evaluations. The first is a feeling of insecurity. The second is a concern that the process would be extraordinarily disruptive. Both fears are unwarranted.

All firms evaluate partners in order to determine fair compensation. Some systems are objective in nature, others subjective. With objective systems, the productivity assessment is arrived at in the design of the system. With subjective systems, a larger part of the productivity assessment takes place in the implementation.

Increasingly, law firms are recognizing the benefit of a partner peer review process. The exact procedure will vary from firm to firm depending on certain aspects of its culture. In most cases, it will include

- the preparation of an annual plan by each partner;
- the review of the annual plan by the department chair;
- circulation of all annual plans to the partners;
- a process for obtaining input about the individual partner from others;
- a meeting between the individual partner and the department chair to discuss the annual plan, the partner's individual evaluation and the setting of goals for the coming year; and
- monitoring of the individual goals during the year.

Many partners resist the concept of partner peer review. They worry that it will be disruptive to the firm, or that it will be personally embarrassing to them. Points that argue in favor of partner peer review are the following:

- most partners know better than anyone else the nature of their weaknesses;
- management groups (and others) will talk about individual partners at committee meetings, in back rooms and over drinks;
- if discussions are inevitable, it is better to have them "on the table" and as part of a predictable process; and
- addressing weaknesses and problems is effective only when the issue is acknowledged.

There is one other important message. Firms that have initiated partner peer review inevitably report success with the process. Reports of failure are difficult, if not impossible, to find.

When the partner evaluation process fails, it is usually for one of the following reasons:

- partner dishonesty,
- lack of follow-up,
- lack of appropriate feedback or
- poor timing.

Some firms conduct partner evaluations within the compensation process. Others keep peer review separate from compensation.

A key ingredient is recognizing that such a process will raise delicate issues. The utmost care must be taken to assure that the process proceeds smoothly. One of the most difficult aspects is soliciting comments from the partners and absorbing them into the "message." Four points need to be made:

- first, management needs to be sure that what is perceived is in fact the case;
- second, the process should encourage constructive, rather than destructive, comments;
- third, management needs to edit the comments in order to either remove or diplomatically state comments that could be unnecessarily offensive to the partner being reviewed; and
- fourth, individual partner comments about other partners must be kept anonymous.

Peer review is fast becoming an integral part of both the planning and compensation processes.

### MEASURING A PARTNER'S CONTRIBUTION

Compensation systems must be able to respond to trends in the profession. As the economics of the profession change, so must the reward system. The compensation system must be flexible enough to adapt to the changing needs of the law firm.

## Finding, Minding and Grinding

### Definitions

- "Finding" refers to the lawyers responsible for generating the work or the client. In today's parlance, they are often referred to as "rainmakers."
- "Minding" refers to the lawyers who are responsible for managing the legal matter and the client. They are responsible for determining the strategy, delegating portions of the work, supervising the project, attending to the billing and maintaining the client relationship.
- "Grinding" refers to the lawyer who produces the work product.

### Are They Still the Framework for Measuring Partner Compensation?

- Finding, minding and grinding are concepts that continue to apply to individuals in law firm compensation discussions. However, the significance of these roles in a particular compensation system depends on a number of variables, the most significant of which will pertain to the specific needs of the law firm.
- If competition levels are high and work is in short supply, the "finders" will tend to be more highly valued and should be better rewarded in the firm's compensation system.
- If a firm has more business than it can handle and "minders" and "grinders" are in great demand, they will likely be treated more generously in the firm's compensation system.
- While the needs of each firm are different, we are seeing certain trends, including the following:
  - There is not enough good legal work to go around and compensation systems are being adjusted to better reward the rainmakers.
  - The "minders" are considered valuable partners to the extent (i) they are able to successfully manage an increasing volume of legal work and clients, or (ii) they have distinguished themselves as highly specialized and justify a high hourly rate. "Minders" who have

mixed results and who are having trouble expanding their volume of business are being perceived to have limited value.

- The "grinders," who, because of personality or limited skills, focus their efforts on performing the work (and generating billable hours) are being perceived as of limited value and are being treated accordingly.

### *The Criteria*

The goal of income allocation will always be to reward partners for their contribution to the success of the firm. There is rarely any dispute about that goal. However, it is often the last point in the discussion to which all partners can agree.

Most law firms are comprised of a group of individuals with differing talents. The differences among the individuals are often the strength of the law firm. No firm could survive if all its lawyers were exactly alike, with the same strengths and the same weaknesses. We should not lose sight of the fact that the differences exhibited by the partners are a good thing.

Some lawyers will be better at attracting clients than others. Some lawyers will perform a higher quality of legal work. Some lawyers will be able to tackle the most complex problem, while others will be more limited in their intellectual ability. Some lawyers will be good at maintaining strong client relationships. Others will have difficulty with their client relationships.

Some lawyers will be a very positive force within the office, will assist young lawyers in their training and will exhibit leadership skills. Other lawyers will be disruptive to the management process.

The problem in income allocation is determining how to measure the relative contribution of each partner. The list of criteria might include the following:

- professional competence,
- ethical standards,
- dedication to firm clients,
- good judgment,
- problem-solving ability,
- timely communication with clients,

- practice management skills,
- time management,
- billable hours,
- billings,
- cash posted,
- realization,
- collection results,
- ability to leverage,
- client retention,
- marketing,
- cross-selling,
- leadership
- effectiveness in promoting the objectives of the firm,
- contribution to firm management,
- community activities,
- bar association activity, and
- seniority.

More difficult than identifying the criteria is agreeing on and articulating their relative weight.

Recent trends include the following:

- seniority has faced near-elimination as a factor;
- billable hours, without more, has decreased in importance;
- leadership ability has been perceived as increasingly important;
- marketing and cross-selling have become more important;
- community and bar associations are important only if they effectively lead to the production of desired business;
- practice management is emerging as an important skill; and
- profitability is becoming more important than gross dollars produced.

Some firms group the criteria under the following general categories:

- quality of professional effort,
- productivity,
- leadership and management, and
- teamwork.

There is an emerging trend that calls for an analysis of a lawyer's profitability, that compares an individual's revenues against the resources used to produce those revenues.

Looking at profitability rewards the lawyer who effectively utilizes resources and demonstrates high realization numbers. It penalizes the lawyer who produces a large volume of dollars from work that is unprofitable.

While some firms may have formula-type approaches to determining profitability, the majority of firms are subjective in their compensation systems and treat profitability as one more factor in the subjective analysis.

### *Recent Trends*

- Firms with subjective systems are rewarding lawyers whose revenue production numbers are strong.
- Young lawyers with strong developing practices are having to be rewarded at levels that seem inconsistent with their years.
- Unproductive lawyers are taking serious cuts in compensation or are being asked to leave.
- Good, solid performers who are not superstars are facing limitations on the increase of their compensation.
- There is a high risk of divisiveness within firms that are focusing more on profits.
- Firms are beginning to realize that they don't need to be staffed with lawyers, all of whom want to be senior partners.
- Firms must focus on whether they want to be internally competitive or externally competitive.
- Just being a good lawyer is no longer enough.

### *New Matter Report*

Credits must be assigned early in the life of the matter, during the case set-up process with the new matter report, to minimize later after-the-fact disputes.

### *Split Credits for Team Marketing*

The splitting of credits among several partners should be encouraged in order to promote team marketing. The split can be negotiated between the partners involved at the time of, and preferably prior to, word from the client that the firm has been hired. Unless the facts strongly suggest otherwise, "standard" levels of splits, e.g., 50 percent/50 percent, 75 percent/25 percent, etc., if two persons are involved; or 33 percent/33 percent/33 percent, 66 percent/33 percent, etc., if three persons are involved, are desirable (but no strict rule with respect to this exists).

### *Ratchet Down*

In cases where the originating attorney(s) is (are) no longer actively involved in keeping the client with the firm (as opposed to "but for" that person's effort is the client retained year after year), origination credits for the originators can decrease over a five-year period at 20 percent cumulative per year. Those same credits given up can accrue to the lawyers now responsible for keeping the client with the firm. This ratchet down calculation can commence the first year that the originating partner actively performs the role, or is perceived by other partners, to no longer provide the "but for" relationship that keeps the client.

## *New Matter, New Clients*

For clients new to the firm, the credits for all revenues, both for the client and for the individual matters, often go to the originating attorney(s) as agreed to among themselves.

## *New Matter, Old Clients*

If a client is a current or past client, then credit for a new matter can be as follows: the originator of the client is the same as the originator of the matter, and, therefore, all credits go to the same person; or if the originator of the client is not the same as the originator(s) of the new matter, the client originator can receive 50 percent of the credits and the matter originator can receive 50 percent of the credits. If the originator of the client later ceases active nurturing of the client (possibly measured by the flow of future matters for which he or she is "but for" responsible), then the ratchet down mechanism described above will take effect on this person's credits (i.e., on his or her 50 percent of the matter in question).

## *Recurring Matters from Old Clients*

This situation usually relates to an "institutional" client, like a bank, where several attorneys may be receiving matters from several different client contacts, year after year (e.g., loan documentation or house closings). Where the client has been a client for many years, credit for these matters typically accrues to the lawyer who "gets" or originates each matter. If the client has been newly acquired, and even though the originator(s) does not perform the work, then credits are determined as for New Matter, New Clients, above.

## *Institutional Clients to be Team Marketed*

Where teamwork is needed to coordinate the expansion of a major institutional client, like a bank with multiple client contacts, a group of partners can choose to hold off on distributing the credits until the end of the year, and then agree among themselves how the accumulated credits should be split.

## PARTNER COMPENSATION SYSTEM "BEST PRACTICES"

### *Raise the Level of All the Boats in the Harbor*

Whereas a few years ago, partners who felt underpaid could successfully make the argument for the firm to redistribute some funds to them from the less productive partners, now it is realized that firms lack the total funds to satisfactorily cover any of the partners' economic expectations. Hence, the realization has hit that, in addition to redistributing the firm's profits, more profits need to be generated, for everyone's sake.

### *Measuring Increased Value of New Business Development Contributions*

The premises supporting this trend are that

- new business and marketing are sorely needed;
- just billing hours is not enough anymore (or, at least, firms are paying less for hours contributions alone); and
- firms should get their rainmakers actively looking for new work (being "market leaders" and using a "venture capital" approach wherein the partners support the rainmakers' efforts, i.e., effective rainmakers may be held less accountable for their personal billable hours than before).

Concurrent with this trend to upgrade the value of new business contributions, firms are redesigning their origination credit accounting policies and systems. Following are some examples of this:

- sunset clauses stop credit after several years unless the partner is still actively involved in keeping the client with the firm,
- client handling of major clients is considered a form of origination,
- no credit is given for work brought in that is performed solely by its originator and
- credits are split to encourage team marketing efforts.

### *Increased Value of Client Retention, Expansion and Assimilation*

The increase in the importance of this performance criteria is concomitant with that of the increase in value of new business development. It was noted that at least two-thirds of a law firm's work each year comes from existing clients (and that about 90 percent of all work comes from some form of referral or existing relationship). This suggests strongly that a major form of "new business development" is caring for and ensuring the continued, and expanded, flow of business from existing firm clients. Also mentioned was the practice of "assimilation" wherein the lead partner should introduce as many lawyers as practicable to a client so that many relationships are created, possibly at various levels in the client's organization. With this accomplished, if one member makes a mistake, the other relationships the firm has established with the client can help to prevent the loss of the client.

### *Increased Value of Practice Management and Leverage*

Leverage, traditionally, is one of the primary ways partners make profits in a professional firm. While this is still true for law firms, however, pressures to "deleverage" have come from two sources: first, clients' wishes not to pay for the training of inexperienced associates and, second, out-of-sync economic relationships between what is paid for associates, how hard they work, recruiting strategies, etc., that work against the leverage principle (that is, cause a firm to lose money on associates). Nevertheless, where the economics are properly set up, a partner's job is to use leverage maximally where practicable. Additionally, running a practice group or otherwise heading and being responsible for the results of a team of lawyers is a form of leverage, in addition to being a hard job, and is being more highly rewarded now in law firms.

### *Billable Hours—As Valuable as Ever; Minimums Expected; Penalties*

The minimum acceptable billable hour standard for a partner in a U.S. law firm seems to be 1,500 billable hours (except for the very few cases in each firm where that partner has a major management function to perform). These minimum standards are being enforced with automatic penalties. For example, a partner's compensation, as awarded before the penalty, is decreased by the product of his or her deficit hours and his or her billing rate.

Whether partners achieve their minimum billable hours is, of course, dependent on enough work being developed by rainmaking partners, and can be influenced by the process in which work is assigned among the partners and to the associates. Some firms have instituted firmwide approaches to managing the assignment of work among the lawyers so as to make the process fairer and gain better overall utilization of the firm's productive, human assets.

### *Other Nonbillable Contributions Expected Over and Above Billable Hours*

While previously in some law firms, "credit" was granted against a billable hour requirement for performing certain management, administrative, public relations or other firm services, currently, everyone is expected to put in their billable hours and perform these extra functions on top of that. This practice stems both from some of the abuses that resulted from the granting of credits and from the fact that more of the profits in a law firm come from the hours billed by partners (as opposed to associates) than in the past. Again, in the extreme cases of *one or a very few partners* who work as the managing partner or as the head of the compensation committee, these partners' billable hour quotas are relaxed a little bit.



### *Pay for Teamwork; Deduct for Nonteam Players; "Binding"*

Firms are increasing teamwork and team-play behaviors among partners by including these behaviors as performance criteria in the reward system. The net effect is to reward partners who are good team players with more money and penalize, through deductions of compensation, partners who are poor team players or otherwise cause diseconomies or disruptions within the partnership. Being a "binder" who is a good cheerleader, facilitator, model partner, etc., is a form of team play and is rewarded accordingly.

### *Seniority, as Such, No Longer Rewarded*

In the 1970s, seniority was the primary criterion used in law firm compensation systems. In the 1990s, partners in major law firms are asked to weight "seniority" on a 100-point scale for reward criteria, and it now rates less than 8 percent—and is falling.

### *Limited Effect of Compensation on Less Productive Partners*

To start, some definition of what is an unproductive or less-productive partner must be considered—is the partner unwilling or unable; is the condition temporary or chronic; does the situation result from a hardship or not; etc. The old approach to unproductive partners was to let them "sink or swim," but now firms believe this practice to be unpartnerlike, and they actively "intervene" in partners' professional lives. Even with intervention, often it is found that only one in four, or so, partners can be retrofitted with new skills, migrated into new practice areas, spiritually rejuvenated or otherwise reclaimed from the grip of "unproductivity." Lowering a partner's compensation, even to extremely low levels, without other interventions, has seemed to have little effect on the productivity of an unproductive partner (because the street value of an unproductive partner is usually far lower than the sums paid by even the harshest of firm managements). The conclusion of most law firm management groups, in 1995, is, "If you're not adequately productive in one year, you're outta here."

### *Culture and Leadership Are More Influential than Compensation*

Several points can be made here:

- "remote control," that is, using the compensation system to try to fix problems without other intervention, such as for unproductive partners, does not work very effectively;
- while the compensation system can be designed to give signals regarding which partner behaviors are valued or to be discouraged, such signals are often less effective than face-to-face persuasion by partners, i.e., a firm's culture; and
- where strong leadership exists in law firms, often, few compensation problems arise.

### *Performance Feedback Results in Behavior Modification*

This has been the most widely adopted new change in U.S. law firm compensation systems in the last few years. Typically, each partner in a modern law firm is considered to be worth investing the time it takes to discuss with the partner why he or she got what he or she did. The idea here is to connect the message (which behaviors are valued in our firm) with the medium (your compensation). The result is to encourage and discourage certain behaviors; in other words, behavior modification.

### *Linking Management to Reward; Abolition of Compensation Committees*

A relatively old trend, one that has already been implemented in most firms, is to link management with the reward system, or, more specifically, to abolish the compensation committee in favor of the firm's executive committee for making compensation decisions. This is based on the legitimate logic that the group voted in by the partners to navigate the firm toward achievement of its strategic plan should also have the "carrot and stick" of compensation setting to help urge behaviors consistent with the achievement of the strategic plan.

## *Performance Planning—Linking Partners' Actions to the Strategic Plan*

A more recent trend of linking compensation to strategic needs is to use individual partner annual practice plans and goals to link partners' contributions during the year to the firm's strategic plan. Again, this iterative planning process is usually somehow connected to the firm's executive committee because the strategy function for the firm resides there. Firms that have linked compensation to annual partner performance planning, which is, in turn, linked to the firm's strategic needs, have found this practice very effective.

### *Mechanics (Point Systems, Swings, Bonuses, Tiering)*

Mathematical formula systems are less prevalent than before, portions of the payout being replaced by subjectively determined bonuses. Prospective "point" systems, which are currently used by two-thirds of U.S. firms, with many converting to this form from retrospective systems each year, are reported to yield the following psychological and other benefits:

- partners have their points set at the beginning of the year, hence their primary motivation during the year is to increase firm profits;
- a bonus pool gives comfort to partners who make personal sacrifices to work on prolonged, high-pace matters or otherwise make some extraordinary contribution to the firm during the year; and
- the use of the bonus pool works to reduce swings in compensation from year to year for the majority of partners (an expressed desire of most firms).

A more recent structural approach is "tiering," which defines job categories for various levels of contribution by partners and awards all the partners placed in a similar tier the same amount (with the reported benefits of decreasing acrimony over small differences and providing clear messages about the requirements for increasing one's income by advancing to the next tier).

## *Profitability as a Measure*

An experimental approach is to measure a partner's contribution not by revenues (e.g., fees billed) but by profit contribution. The underlying concept here is that the structural and economic differences between one practice area and another can yield different profit contributions. Computers, appropriate cost accounting policies and a lot of good judgment are required to support this approach.

## MODIFYING THE FIRM'S REWARD SYSTEM

### *Diagnostics for Determining if the System "Needs Fixing"*

Any of the following may suggest that a reward system should be reviewed.

- Profits and/or firm growth are not satisfactory.
- The values and behaviors given incentive by the compensation system seem to be in conflict with the firm's culture.
- More than the usual "rumblings and grumblings" came up after the last distribution process.
- Some of the most productive partners (usually rain-makers) are not happy with their incomes.
- Any subgrouping of partners is disgruntled about their compensation, e.g., the younger partners, recent lateral partners or client handlers without much origination.
- There is general dissatisfaction with the compensation process or those making the decisions.
- The partners do not generally understand the compensation system, how it works, the performance criteria, etc.
- A two-tier partnership was formed in the last five years.
- The firm has added a significant number of laterals (or a few with big practices) in the last several years.

- The firm has retired or lost a significant number of partners (or a few with big practices) in the last several years.
- The firm has no partner evaluation process.
- The partners are no longer confident about those who are making the judgments or who are on the compensation committee.
- Partnership demographics have changed in other ways in the last several years, e.g., many new and younger partners have been admitted.
- A major change in the mix of the firm's work has occurred, e.g., a formerly major practice has become much less significant.
- The firm has not reviewed its partner compensation system, in a major way, in the last four years.

### *Methodology for Reviewing and Making Recommendations*

The following are considered among the best practices for reviewing and making recommendations for a firm's reward system.

- Form a special review committee (usually with significant political clout and independence, if possible, from the current compensation decision makers; and, if possible, it should be representative of the partnership).
- Hire a consultant specialized in law firm partner compensation (who can add procedural and compensation system design ideas, usually more efficiently than surveying other firms, and who can act as a facilitator for the process).
- Get input from each partner. This includes use of written surveys and confidential interviews. Find out how each partner feels in addition to how he or she thinks or reacts to the current compensation system and its results.
- Understand what does not work with the current system; what the major objectives of the firm are that the system should support in the future; and what major cultural rules for "partner behavior" currently or should exist.

- Design and document a new compensation system or alternative approaches. "Bench test" any proposed system with live historical or realistic but hypothetical pro forma performance data.
- Discuss changes with the partnership with ample time for debate and input, e.g., at a firm retreat.

### *Selling the Changes*

Consideration of this topic may include understanding the way any major changes are accepted by the partnership and implemented in the firm. How partners are compensated is usually addressed in the partnership or corporate agreements, which need voted approval to be amended. With compensation, particularly, some "pre-selling" is useful to ensure that partners who feel the system will benefit the firm are ready to publicly support it and partners whose incomes will be reduced are spoken to beforehand to try to ease their apprehensions and gain their support. Arguments for the new compensation system should always be presented along the lines of "how it will benefit the firm," not personalized as to "whose ox will be gored."

### *Avoiding Pitfalls and Problems*

A beginning list of ways to avoid problems with the implementation of a new compensation system may include the following:

- Make all partners a part of the modification process, e.g., interview them for their input, as opposed to railroading through an answer.
- Do a lot of "walking the halls" selling, e.g., try to gain grassroots support and agreement.
- Document the deliberations and analyses the review committee has undertaken, i.e., show that the committee has done its homework.
- Be tough; not everyone will be happy, but if the revised system stands the test that it is better for the firm's future success, then push for change.