Partner Compensation to Support Strategy and Long Term Growth

ALA St. Louis Chapter

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October 2017

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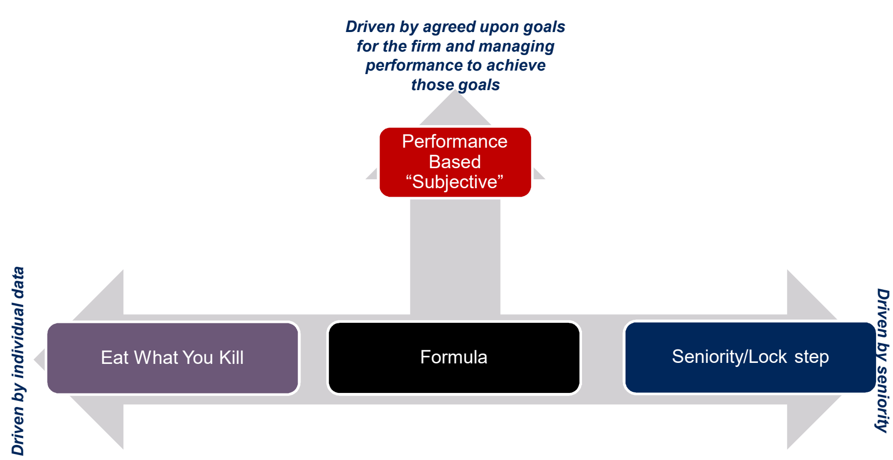
The Market's Impact on Partner Compensation

- Heightened pressure on partner compensation
  - Flat profitability
  - Gap between values and metrics
  - Gap between client values and firm incentives
- Ongoing re-distribution of compensation
  - Sputtering practices
  - Gap between top and bottom performers
  - More volatility, bigger downward adjustments
- Competitive pressure and lateral recruitment adding complexity
  - Pressure to ensure 'market' compensation for most valuable/mobile partners
  - Cutting special deals

Link to Strategy and Longer Term Thinking

- How do you incentivize long term behavior / thinking among partners?
- How do you create a partnership culture that supports “investment” in long term, strategic contributions?
- How do you balance short and long term priorities?

Spectrum of Partner Compensation Systems



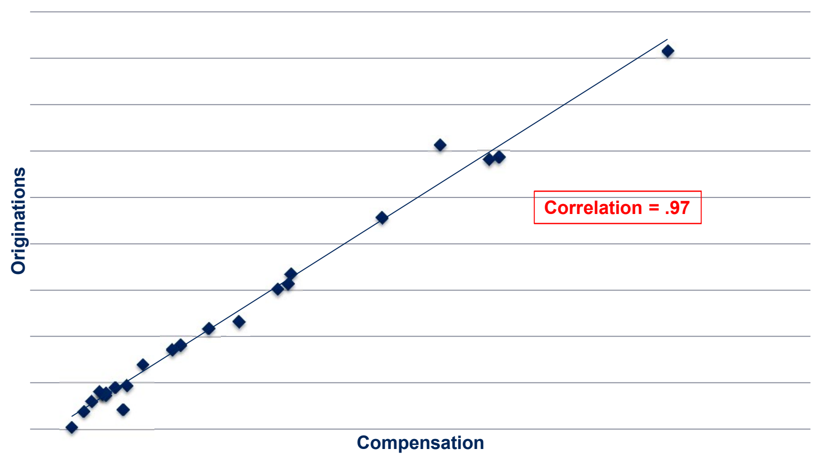
Structuring an Effective Performance/Merit Based Compensation System

Methodology: How does it work?	• Management assessment of individual partner performance and merit of contributions to the firm (without a formulaic weighting of criteria)
What does it reward?	• Derived from the goals of the firm, linked to key performance areas: • financial contribution • client service and management • marketing and business development • practice group and people management • partnership contribution • Balancing quantitative and qualitative data

Best Practices on Origination Tracking and Sharing

- No perfect approach - “objective” measurement of “subjective” relationships
  - Abuse can contribute to hoarding and barrier to collaboration
- Definition:
  - Billing Attorney credit represents the fiscal year collections attributable to the partner or partners who are the reason why the client matter is currently at the firm
- Tracking and sharing:
  - Typically tracked at the matter, or client level (in the case of multiple generation metrics)
  - “Shared” in material increments (e.g. 25%)
  - Sun-setting of credit when partner is no longer a primary relationship partner
- Critical success factors:
  - Clarity in origination definition and sharing policy
  - Recognizing relationship lawyer contributions, not the squeaky wheel or double recognition of other metrics (e.g. working attorney)
  - Consistency in application = shared understanding + role of management

Origination as a Differentiator – Example 1



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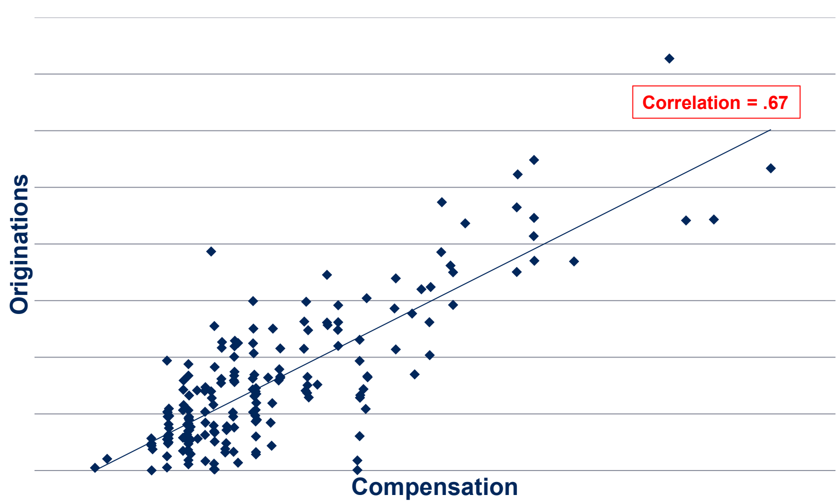
Origination as a Differentiator – Example 2



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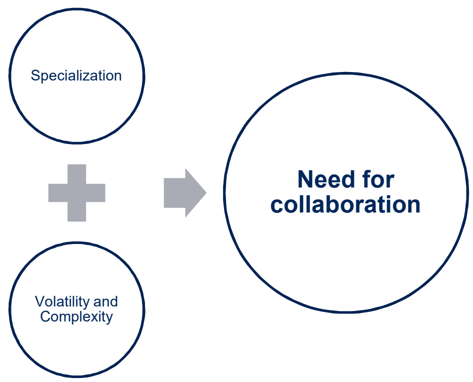
Why Collaborate? The Value of Teaming

Why has collaboration become a buzzword in law firms over the past 5 years?

Escalating rate of 'knowledge change' >>> Increased specialization

Globalization, and technological, regulatory, economic environmental complexity >>> Need for multi-faceted solutions



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Structuring an Effective Performance/Merit Based Compensation System

Open vs. closed?	• Open systems more common, but focus on relative compensation tends to drive dissension • Closed systems, with trusted leadership, tend to result in increased satisfaction
Prospective vs. retrospective?	• Prospective systems offer opportunity to align partners with firm goals

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Methods for Managing Partner Performance

Performance planning approaches	• Individual performance planning process • Simple goal setting process
Linking performance management to compensation	• Performance management framework • Measurement of progress towards goals/plans
Use of levels and increases/decreases	• Defined levels in which partners move up and down
Feedback process	• Pre compensation interviews • Post compensation interviews, where appropriate

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Balanced Performance Framework

Level	Client Management and Development	Practice and Financial Contributions	Contribution to the Firm and Community
Band IV			
Band III			
Band II			
Band I			
Base Expectation			

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Structuring an Effective Performance/Merit Based Compensation System

Who sets compensation?	**Management**	**Partial Overlap**
Membership:	Executive Committee (or other governing body) acts as Compensation Committee	Partial membership overlap with Exec Comm; Additional members appointed or elected at large
Benefits:	Based on principle that one's ability to lead/manage an organization is derived from one's ability to set compensation	Allows for broader partner insight/input into compensation process
Drawbacks:	Fails if partners do not trust firm leadership	May require greater effort to align members of management and others

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Bonus as a Performance Management Tool

- Additional vehicle for incentivizing top performers
- Requires careful application and avoiding traps which dilute effectiveness

Effective Bonus Approaches	**Ineffective Bonus Approaches**
• Clear criteria and philosophy • Predominantly focused on extraordinary performance • Application for "outlier" compensation • Select application as equalization tool • Limited in distribution • Retrospective pool, typically ranging from 4% to 15% of net income • Material increments of $20,000 or greater	• Small increments • Lack of understanding of why the bonus is received • Viewed as a 3rd form of expected compensation • Creates an additional form of competition around compensation

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Closing Thoughts: Best Practices

- Understand what you are **really** rewarding in the compensation process
  - Reward behaviors clearly linked to firm goals/strategy
- Incentivize partners to focus on personal development, building competitiveness of the Firm in the short and long term
  - Avoid paying top dollar to partners who violate desired norms for collaboration
  - Shift partner thinking towards longer term investment in the Firm
- Provide direct feedback to partners on contributions
- Demonstrate consistency in the process, and a clear link to and analysis of quantifiable contributions
- Do not underestimate the importance of trust

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