

Cutting The Pie

Determining Partner Compensation



The Horton Group Law Firm Seminar

Chicago, Illinois

March 14, 2008

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Symptoms of Compensation System Failure

- Partner defections
- Firm splits and defections
- Personal fiefdoms
- Maverick partners
- Hoarding work
- System perceived as unfair
- Problems acquiring/retaining talent

Symptoms of Compensation System Failure

- Low Productivity
- Client dissatisfaction
- Low morale
- Disputes with former partners

Position

- Most law firms are not satisfied with the partner compensation systems they have in place
- Law firm partner compensation systems are failing to meet desired objectives

Action

Law firms need to evaluate and redesign compensation systems if necessary in accordance with the firm's objectives and culture in mind

Benefit

By aligning a firm's compensation system with a firm's strategies and objectives a firm will:

- Reduce turnover and improve retention
- Improve productivity and profitability
- Increase accountability
- Improve alignment with firm's objectives

Current State of Compensation Systems in Law Firms

62% Partners are dissatisfied with compensation systems in place.

Olmstead & Associates Law Firm Client Findings

Current State of Compensation Systems in Law Firms

- “I am happy with my compensation but not with the system used to determine it.”
- “I have no idea how my compensation is determined. It makes no sense.”

Olmstead & Associates Law Firm Client Interview Quotes

Current State of Compensation Systems in Law Firms

Other Surveys

- More than 40% - 100+ attorney firms use solely subjective systems
- Less than 25% <20 attorney firms use solely subjective systems

Current State of Compensation Systems in Law Firms

Systems in Use

- Subjective Plans
- Objective Plans (Formula)
- Combination (hybrid) Plans
- Team Based
- Bonus Pools

Current State of Compensation Systems in Law Firms

Trends

- Lockstep systems all but dead in the US
- Shift towards objective systems
- Shift toward team rewards
- Integrating systems with strategic objectives

Current State of Compensation Systems in Law Firms

Illustration of Systems Not Meeting Firm Goals and Objectives

Goals of Compensation Systems

Ownership Compensation

- Individual Contribution
- Return On Capital
- Share of Profits

Goals of Compensation Systems

- Reward
 - Results
 - Effort
 - Competencies
- Motivate Behavior – congruent with firm goals

Goals of Compensation Systems

Typical Behaviors Desired

- Pro bono work
- Teaching, writing, speaking
- Collegiality and team plan
- Training and mentoring
- Expertise
- Leadership and management

Goals of Compensation Systems

Typical Behaviors Desired

- Fees Collected
 - Finding – Origination
 - Minding/Binding
 - Grinding
- Participation in community/bar activities

Goals of Compensation Systems

Typical Behaviors Desired

- Profitability
- Client satisfaction
- Compliance with firm policies
- Firm-First attitude

Goals of Compensation Systems

An Appropriate Measure for Profitability

Margin x Rate x Utilization x Leverage

Profits = $\frac{\text{Profit}}{\text{Partners}} \times \frac{\text{Fees}}{\text{Fees}} \times \frac{\text{Hours}}{\text{Hours}} \times \frac{\text{People}}{\text{People Partner}}$

Hygiene Factors: Margin and Utilization

Health Factors: Rate and Leverage

David Maister

Goals of Compensation Systems

Job Level Profitability

See Separate Handout Attached

Goals of Compensation Systems

- Firm First vs Long Ranger Firm
- Characteristics of Firm First Firms

Goals of Compensation Systems

- Characteristics of Long Ranger Firms

Goals of Compensation Systems

- Synergy
- RULES/SCORE

Characteristics of Successful Law Firms

Basic Building Blocks

Marketing

Client Service

Planning

Partner Compensation

Firm Management

Leadership

Partner Relations

Law Firm Profitability Model

Profitability Model (Cont'd)

- The management levers consist of:
 - S - Strategy
 - C - Culture
 - O - Organization
 - R - Reward
 - E - Environment

Law Firm Profitability Model

Profitability Model (Cont'd)

The economic levers consist of:

- R - Rates
- U - Utilization
- L - Leverage
- E - Expenses
- S – Speed

Challenges/Variables/Issues

- Limits to what compensation systems can achieve
- Research
 - Motivation
 - Intrinsic vs. Extrinsic
 - Right people on the bus (Collins)

Challenges/Variables/Issues

- Key questions
 - Why are we here
 - How do we want to work together
 - What kind of partners do we want to be
 - How accountable to we want to be to each other

FIRM FIRST – LONG RANGER

Challenges/Variables/Issues

Me vs We Firms

	Short Term Reward Focus	Builds A Future
Team Player	Wolf Pack (20-30%)	Humans (Ant Farms) (10-20%)
Independent Solo	Lions (30-40%)	Beavers (20-30%)

Compensation System Models/Approaches



Compensation System Models/Approaches

System Must be Perceived as Fair

- Do I understand the system
- Does the system recognize what individuals contribute to the firm
- Are the rules clear

Compensation System Models/Approaches

System Must be Perceived As Fair

- Are the rules followed and applied in a consistent manner from person to person and from year to year
- Are those making compensation decisions trusted and respected

Compensation System Models/Approaches

- Subjective Plans
 - Rough Justice
 - Process
 - Committees
 - Personal Business Plans

Compensation System Models/Approaches

- Objective Plans (Formula)
 - Eat-What-You-Kill
 - Profit Center Approaches
 - Fee/Credit Allocations
 - Fee Generation
 - Fee Origination
 - Both
 - Values assigned to full-range of compensatable criteria

Compensation System Models/Approaches

- Lockstep Plans
- Combination (hybrid) Plans
- Bonus Pools
- Team Based
- Effectiveness of various plans and where they fit.
- How to change and implement (Where to start)

Conclusion

- Review
- Conclusion
 - Position
 - Action
 - Benefit
- Question/Answer