

Solving the Great Partner Compensation Puzzle – Promoting Teamwork (Part 3)

By [Michael D. Short](#) on February 18, 2013

In my last [two blogs](#) I have been focused on the ability to solve the “teamwork puzzle” in a law firm and the role that the compensation system plays in the solution. I suggested that any partnership’s ability to solve this challenge depends upon the answers to three important questions related to setting compensation.

The first question was, “*Is the goal of your compensation setting process only to retrospectively divide the profit pool as fairly as possible OR to divide the profit pool as fairly as possible and prospectively incentivize growing the profit pool (i.e., the pie)?*”

The second question was, “*Must you set compensation based on the premise that all Partners are equal in their abilities and must be evaluated in relation to a conceptual “Ideal Partner” OR does each Partner have recognized strengths to be exploited and weaknesses to be either developed or avoided?*”

I now offer the third question in this series, which is based on the Harry Truman quote – “It is amazing what you can accomplish if you do not care who gets the credit.”

Based on the current level of focus on credit and internal score-keeping at your firm, would you say that your Partners are in competition with each other internally OR in competition with other law firms externally?

Symptoms of firms where the **Partners are in competition internally** include:

- Partners usually going on new business pitches alone, or heated discussions about credit for the relationship *before* the first meeting;
- Origination credit sharing/splitting, and some Partners who won’t assist others because they won’t split credits;
- Radically differing sharing behaviors by rainmaking Partners, resulting in perceptions of “good” and “bad” Partners to work with;
- Partners working matters without other Partners – a heavy reliance on associates...until those associates become Partners;
- Little cross-selling and, sometimes, Partners “dabbling” in practice areas outside of their specific experience and expertise;
- Sometimes confused clients with respect to how their matters are handled; and
- Modest revenue and profit growth, if any.

Symptoms of firms where the **Partners are in competition with other law firms** include:

- Partners strategizing on new business pitches together and worrying about landing the client before assigning internal roles;
- Partners who always take another Partner along when going to any client meeting;
- A recognition that a large client relationship requires Partners in multiple roles (e.g., overall relationship manager, first chair on assigned matters, billing, sources of matter expertise) and a general willingness by Partners to assume any of these roles;
- A culture of cross-selling;
- Impressed clients, who see the firm's depth and breadth regularly; and
- Steady and significant revenue and profit growth.

Of course there are many positions along the spectrum between these two polarly-opposite positions. Any firm's relative position is generally influenced by a variety of factors, such as the type of compensation system used, the confidence that the Partners have in each others' skills, and the trust that Partners have with respect to taking responsibility for each others' clients. There are, however, three vitally important characteristics that are easily identified in any firm that have a major influence on the Partnership's ability to focus externally –

1) Do the decision-makers understand the many roles Partners need to fulfill in order to make a large client relationship succeed and grow significantly?

You generally get what you reward. If the "message" from compensation is that it's all about originations or personal production then that is the behavior everyone will focus on...even if it is not their personal strength or best use. If the "message" is that we want the firm to grow and we realize that it will take many different contributions, then Partners can contribute in a variety of manners and have those contributions recognized and rewarded at the end of the year.

2) Do the Partners trust the decision-makers? (There are two sub-parts to this question.)

The first is the general confidence in the decision-makers that they are acting in the best interests of the firm and using the profit pool wisely and fairly. This is a perception issue that is harmed by consistent situations such as a) certain Partners who appear to be protected regardless of their contributions, b) those who have a powerful advocate in the Partnership who tend to do better than their contributions should merit, or c) decision-makers who appear to consistently do well in relation to their overall contributions to the firm.

The second is the knowledge that the decision-makers have about each Partner's various contributions. Do they know the contributions made to several major accounts? Invaluable expertise provided on a matter that doesn't materially show up in the hours report? Introductions made that turned into work for others where there is no evidence of the effort in the financial system anywhere? Time entered into the system is data. Summarized time reported out of the system is information. The story behind the numbers and the contributions is knowledge. Truly sound decisions are based on knowledge, which is developed by talking regularly with Partners, asking questions about new clients and complex matters, and developing a summary of the contributions that may be out of sync with the information in the reports...and that's OK.

3) Are the decision-makers able to have difficult discussions with individual Partners?

What happens when the decision-makers develop a summary of contributions that is out of sync with the information in the reports? Are the expectations of the Partners re-aligned with the story behind the numbers? Or are the Partners left to think that the numbers are what the decision-makers use (which is, by far, the easy route forward)? Decision-makers who avoid difficult discussions will use the information presented in the reports. Decision-makers who operated based on knowledge and the stories behind the data will have the commensurate difficult discussions in order to manage everyone's expectations through the process.

There are, ultimately, two vitally important roles for the decision-makers (and these apply to formulaic comp systems as well) – 1) police the information/knowledge used to make the decisions and address those who “game” the system, and 2) manage every Partner's expectations throughout the process, which often requires difficult discussions. Those who do these two tasks well tend to be trusted, which allows the Partners to focus their energies externally. Those who do these tasks poorly tend to have Partners who do not trust them, which results in an internal focus on credits and “proof” of their contributions.

Now that we're focused on the issue of the Partnership's trust in the decision-makers, take a quick look back at the first two questions and evaluate the role that trust plays there too.

Next month I will tie all of this together via a case study of a firm that moved from the “first” position in each of my questions to the “second” position in less than a year and is reaping significant rewards. They concluded that trust, when applied properly through the compensation system, can produce teamwork that is personally and professionally satisfying to the individuals and therefore noticed by their clients, who are sending more work to the firm.

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Watch for two important announcements related to Partner Compensation Systems – 1) we are launching a detailed Partner Compensation System Survey (online; confidential; basic report is free to participants) within the next week, and 2) we are scheduling a series of workshops on Partner Compensation in June – at least one in each time-zone.