

# Business & Careers

## Firm's compensation model speaks volumes



**Warren Smith**  
The Headhunter

Your compensation model says more about your firm's values and priorities than any mission statement you could ever produce. Intentional or not, it will heavily influence how the lawyers at your firm work, what they prioritize and how they approach their practice.

Lawyers are smart and will quickly figure out what the optimal

performance model is for a given compensation model, so figuring out how best to align performance with compensation is critical to the success of any law firm.

I could write an entire book on the subject and still not scratch the surface of the nuances involved in getting compensation right in the law firm setting.

What I want to do is give you a quick overview of the key issues and common unintended consequences law firms face when setting up the compensation structure for their lawyers. For simplicity's sake, I've focused my thoughts on the three key (and most common) components of compensation structures, namely base salary, short-term incentives and long-



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The Counsel Network

term incentives. Here is a brief description of each component and how they impact individual performance in a law firm setting:

### Base salary (or draw)

This is generally the largest, most predictable and most reliable component of a lawyer's compensation structure. The less a lawyer feels like they have control over their practice and/or clients—the more this component will tend to be valued in their assessment of a compensation package.

With partners, we traditionally see base salary receive more focus the less confident they are in the portability of their practice. As a result, base salary needs are often

used as a tool by hiring partners as a secondary means to assess confidence in practice portability. The higher your demand for certainty, the less confident the market will believe you are in the strength of your practice—something to consider when you are next negotiating your compensation package.

### Short-term incentives

The most common bonus model for lateral partners is a percentage model, paid on billings at various thresholds; typically in increasing percentage the higher the billings. High percentage payouts tend to encourage partners to increase their personal productivity, as **Priorities, Page 26**

## ANNOUNCEMENTS



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## Business & Careers

# Priorities: Forgetting to review goals often a problem

Continued from page 25

they collect an increasing percentage of their billings as they work through various thresholds.

One unintended consequence of such models can be a lack of incentive to send work to others, as they become so highly motivated to keep their own work, particularly when compared to the typically more modest origination credit they would receive by giving the work to others. Formulaic models tend to work best where a firm is seeking to maximize personal productivity and cross-practice integration is less critical to the success of the firm.

The other common bonus structure is a discretionary model, which can incorporate a myriad

of factors which a firm chooses to prioritize. These have the advantage of motivating a wider range of behaviours and typically work best when seeking to encourage a more holistic approach to contributions to the firm.

One unintended consequence of such models is it can lead to a gaming of the system—where lawyers conclude they are better off taking management or administrative roles, as opposed to improving personal productivity. Discretionary models can also be harder to articulate to prospective lateral hires, who may be apprehensive in letting a sizable component of their compensation be determined by factors they deem subjective and outside their control.

### Long-term incentive

Law firms traditionally have not offered meaningful long-term incentive models as are seen in more traditional business models, in part owing to the nature of professional services businesses and their limited ability to create a sustaining, profitable business model outside the continued contributions of the ownership group (the partners).

A select number of firms offers pensions as a means to incentivize both long-term alignment and commitment to the firm—though there have been questions in recent years as to the long-term viability of such models given both the sus-

taining costs and succession issues the legal profession is facing. That said, our experience as recruiters suggests, so long as these models remain viable, they do have a meaningful impact on retention of senior talent, particularly as they get within 10 years of their eligibility to claim the benefit.

In the end, it is important for your firm to understand what it wants the team to prioritize and build a compensation model that reflects those goals. One of the greatest challenges we see is where firms undertake a significant strategic planning initiative, merger, or growth model, but fail to revisit the firm's compensation model as part of this exercise.

In doing so, while the firm may articulate a clear direction it wishes to pursue, by failing to align the compensation model with the new objectives, it can create an internal disconnect that can lead to attrition or failure to attract the appropriate talent in line with firm goals.

*Warren Smith is the managing partner of The Counsel Network, Canada's oldest and most respected lawyer recruitment and career consulting firms. He is also the first Canadian to be elected president of the National Association of Legal Search Consultants (NALSC), North America's leading legal recruitment industry association. You can follow him on Twitter @law/headhunter*

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