

# Designing Your New Compensation Plan



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# Why Change?

- ⇒ Economic climate makes it difficult to satisfy everyone's expectation
- ⇒ No longer possible to take from unproductive partners
- ⇒ Must generate more profit for everyone, and encourage partners to do that.



# FMG?

- ⇒ Finders
- ⇒ Minders
- ⇒ Grinders
- ⇒ Many compensation systems rewarded Finders and Grinders only
- ⇒ Binders?



# Billable Hour Targets

- ⇒ Emphasis on individual targets
- ⇒ Compensation for work done
- ⇒ Compensation for originating work
- ⇒ Little compensation for other activities
  - ⊗ Just general expectation that people would contribute in other ways



# Billable Hour Failures

- ⇒ Target minimums
- ⇒ Sanctions for failure to meet minimums
- ⇒ Little effort to determine why
  - ⊗ Failure of “rainmakers” to deliver
  - ⊗ Failure of management to allocate available work



# Sanctions are not Effective

- ⇒ Little effect on non-productive partners
  - ⊗ Need to define “non-productive”
- ⇒ Determine reasons for lack of production
  - ⊗ Temporary or chronic
  - ⊗ Willingness to work?
- ⇒ Sink or swim is not partner-like



# Intervene Early

- ⇒ Active intervention = restored productivity
- ⇒ Without intervention, cannot solve problems through compensation
- ⇒ Strong leadership leads to fewer compensation issues
- ⇒ Connect values to compensation
- ⇒ Set time limits



# What are you Rewarding?

- ⇒ Reward systems benefit those who behave in the way that the system expects.
- ⇒ Step 1 – What is it that you expect your partners to do?
  - ☒ Billable hours, high fees
  - ☒ Generate new work
  - ☒ Firm management and administration
  - ☒ Leverage





# Moving from billable hours / fees

- ⇒ Billable hours no longer enough
- ⇒ Reduce targets to permit achievement of other strategic goals
- ⇒ Redesign compensation system to reflect this



# Rewardable Activities

⇒ Business Development

- ☒ Not just “finding”

⇒ Client retention and expansion

- ☒ “minding”

⇒ Practice Management and Leverage



# Value of Business Development

- ⇒ Traditionally a rewardable activity
- ⇒ Credit for “originator”
  - ⊗ Even if work brought in is done by the originator
- ⇒ Value of this must be measured
  - ⊗ Sunset on origination credits
  - ⊗ Shared credits for team marketing



# Client Retention

- ⇒ 2/3 new work from existing clients
- ⇒ 90% new work from existing relationships or referrals
- ⇒ Maintain these relationships
  - ⊗ One client = many attorney contacts
  - ⊗ Multiple relationships make it harder for clients to leave and protect against mistake by one



# Practice Management

- ⇒ Firm management
- ⇒ Practice group management
- ⇒ Effective management leads to increase in profitability



# Leverage

- ⇒ Traditional route to profitability, but:
  - ⊗ Clients no longer willing to pay for training
  - ⊗ High salaries, cost of recruitment, different work ethics affect profitability of younger attorneys
- ⇒ Still effective at increasing profits and should be rewarded



# Designing the New System

⇒ Who should do it?

- ☒ Not the “compensation committee”

⇒ Firm management

- ☒ Familiar with firm objectives and values
- ☒ Know what is needed
- ☒ Can use carrot & stick approach



# Plan for Performance

- ⇒ Link compensation to strategic needs
- ⇒ Use practice plans and goals to link partner contributions to the firms strategic plan





# Changing the System

- ⇒ Form a special review committee
  - ⊗ Significant political clout and independence
- ⇒ Hire consultants, specialists in compensation
- ⇒ Input from each partner
  - ⊗ Written surveys
  - ⊗ Confidential interviews



# What's good in Existing System?

## ⇒ Prospective Systems

- ☒ Points are set – motivation is to increase profit
- ☒ Bonus pool for retrospective rewards
- ☒ Bonuses reduce swings in compensation

## ⇒ Tiering

- ☒ Define categories for desired contribution levels
- ☒ Same tier = same compensation



# What does not work?



# Design new System

- ⇒ Have alternative approaches
- ⇒ Bench test suggestions with historical data
  - ⊗ Show what effect changes would have
- ⇒ Document system fully
  - ⊗ Don't take chances on future interpretations
  - ⊗ Record all deliberations and analyses



# Criteria for Income Allocation

- ⇒ Reward contribution to the firm
- ⇒ Recognize individual and distinct talents
  - ⊗ Often contribute to the strengths of firm
- ⇒ Reward most needed contributions
  - ⊗ Rainmakers vs Grinders
  - ⊗ Minders who increase work from client
  - ⊗ Grinders who do not have limited value



# Trends in Income Allocation

⇒ What's Hot?

- ☒ Leadership ability
- ☒ Marketing and cross-selling
- ☒ Practice management

⇒ What's not?

- ☒ Seniority
- ☒ Billable Hours



# Profitability vs Revenue

⇒ Easy to measure hours

☒ Hours → Dockets → Bills → Revenue

⇒ Cost of revenue often overlooked

☒ Reward effective use of resources

☒ Penalize high cost work



# Measuring Contribution

- ⇒ Assign credits early in life of a matter
- ⇒ Recognize team contributions
- ⇒ Origination credits (if any) decrease over time, from finders to minders
- ⇒ New matters from old clients
  - ☒ Separate origination credit
- ⇒ Recurring matters from old clients





# Selling the System

- ⇒ Speak to those affected the most beforehand
  - ☒ Get support
  - ☒ Minimize opposition
- ⇒ How will it benefit the firm
- ⇒ Demonstrate how it supports firm values