

Compensation (Re)Design for Law Firms



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Contents

Executive summary	vii
About the authors	xi
Chapter 1: Why do we have compensation programs?	1
<i>By James D. Cotterman, principal at legal management consultancy Altman Weil Inc.</i>	
Why do compensation programs exist?	1
Best practice guidelines	3
Equity in compensation decisions	6
The power of external competitiveness and firm profitability	8
Regular compensation reviews	9
Summary	9
Chapter 2: Trends in partner compensation	11
<i>By August J. Aquila, CEO of Aquila Global Advisors LLC</i>	
What, really, is compensation?	11
What is fair partner compensation?	12
Paying for performance	13
Performance bonus criteria	13
Building the “near-perfect” compensation system	13
What should the system achieve? Nine goals	14
Where do current compensation systems fall short?	15
What is involved in a performance-based system?	16
Chapter 3: Components of a well-conceived partner compensation system	19
<i>By Joel A. Rose, president of Joel A. Rose & Associates Inc.</i>	
Compensation objectives	20
Direction of the firm	21

The firm’s cultural philosophy will affect the compensation system.....	21
Partner choice of compensation systems.....	22
Compensation systems as a management tool	23
Incentives for partners	23
Weighting of compensation criteria.....	23
Representative partner compensation criteria.....	24
Types of origination and credit	28
Conclusion	34
Chapter 4: Differential compensation – A focus on practice groups.....	35
<i>By Michael Roster, co-chair of the Association of Corporate Counsel’s Value Challenge steering committee; previously managing partner of Morrison & Foerster’s Los Angeles office and GC of Stanford University</i>	
What does this mean for law firms?.....	36
A differential approach to compensation	37
The evils of silos and formulas	39
Conclusion	41
Chapter 5: Compensation to reward the right behaviors	43
<i>By Arthur G. Greene, principal at Boyer Greene LLC</i>	
What are the desired behaviors?.....	43
Recognizing the need for a change in determining compensation.....	46
Introducing incentives	48
Compensation systems	48
Incentivizing behaviors under different systems.....	49
Conclusion	50
Chapter 6: The managing partner’s perspective – Incentivizing the right behavior	53
<i>By David C. Baca, partner at Davis Wright Tremaine LLP</i>	
Defining the “right behavior”	54
Getting the right behavior.....	55
Chapter 7: Strategic and compensation plans – Why do the lines never intersect?	61
<i>By Julious P. Smith, Jr, chairman emeritus of Williams Mullen</i>	
Where are we going wrong?	61
Compensation drives behavior	62
Aligning the compensation system and the strategic plan	63

Chapter 8: Compensation – A whole new set of rules 67
By Thomas Berman, principal at Berman & Associates

 The old model 68
 Assessing the impact of your compensation program 70
 Other issues 71
 Recommended program 72

Chapter 9: Incentivizing the new normal 75
By Timothy B. Corcoran, principal of Corcoran Consulting Group LLC

 Align compensation with strategy 75
 One size doesn't fit all 76
 The formula for success 78
 What matters more than matters 78
 Succeeding at succession 80
 The new normal 81

Chapter 10: A short guide to law firm management roles and compensation 83
By John Jeffcock, chief executive of Winmark

 Traditional compensation models 83
 CEO performance 87
 Current practice 88
 The problem with current practice 89
 The remuneration and measurement process 91
 Conclusion 94
 Appendix A: CEO role 95

Executive summary

The issue of compensation in law firms can be a minefield; the question of how to measure and reward partner contributions can provoke strong emotions, and the ramifications of decisions made can be uncertain and long lasting. Yet in a competitive marketplace, with increased pressure to provide greater value for less, more and more firms are being forced to rethink how legal work is priced and staffed, and how lawyers should be evaluated and compensated. This book is designed to help law firms develop a strategy and framework to ensure consistency and quality of compensation decisions, retain and motivate individual lawyers, and incentivize them in ways that will benefit the partnership as a whole.

When it comes to compensation plans, one size does not fit all. In this book, experts in law firm compensation describe some of the essential features of various remuneration programs, and they share guidelines and best practice that will help law firm leaders to determine the right plan for their firm, aligned to its strategy and culture, that will deliver the best results for clients.

Compensation systems are necessarily varied – what works for one firm may not be suitable in another. In the opening chapter in this book, James D. Cotterman, principal at legal management consultancy Altman Weil Inc., looks at why compensation programs exist in the first place – “to make consistently good compensation decisions” – and uses this to draw out several best practices that can be applied to partner compensation, regardless of the firm’s structure or approach. This is followed by a chapter from August J. Aquila, CEO of Aquila Global Advisors LLC, who discusses current trends in partner compensation in professional services firms, and describes how to create individual scorecards for partners which encourage them to strive to better their own performance rather than competing with each other.

As the legal market changes, business models become more varied, and client pressures increase, determining which behaviors to

compensate – and how to weight the various criteria – is becoming increasingly challenging. In the next chapter, Joel A. Rose, president of Joel A. Rose & Associates Inc., outlines key components of a successful compensation plan.

How does a firm measure the contribution of its practice groups to the whole? By the rates they charge? By their competitiveness in the market? By how well they recognize and cater for what their clients value? And how far should lawyers' contributions to their practice groups affect the compensation they receive? In the next chapter, these questions and others are addressed by Michael Roster, co-chair of the Association of Corporate Counsel's Value Challenge steering committee and former managing partner of Morrison & Foerster's Los Angeles office and GC of Stanford University.

It is irrefutable that compensation is an important driver of behavior; in this respect compensation can be a powerful management tool. In Chapter 5, Arthur G. Greene, principal at Boyer Greene LLC, discusses how to establish and reward the behaviors you want to see modeled in your firm, and how to use compensation to ensure that all hands are pulling in the same direction to achieve the firm's established goals and objectives.

This is followed by a chapter from former MP of Davis Wright Tremaine LLP, David C. Baca (2007–2014), still a partner at the firm, who describes the role of firm leadership in gaining buy-in for desired behaviors from the organization as a whole, and encouraging a culture that will allow individuals to succeed.

When compensation systems clash with a firm's strategic plans, compensation will triumph every time. In Chapter 7, Julious P. Smith, Jr., chairman emeritus of Williams Mullen, outlines the challenges of aligning a firm's compensation and strategic plans, but emphasizes that this is an essential endeavor for a firm that wants to see its carefully honed strategies succeed.

As times change, we need “a whole new set of rules” for partner compensation, according to Thomas Berman. In Chapter 8, the principal at Berman & Associates challenges the reader to evaluate the effectiveness of their firm's compensation system, and outlines several key questions to consider. Continuing on this theme, Timothy B. Corcoran, principal at Corcoran Consulting Group LLC, then looks at the need to redefine compensation schemes to address the current climate and deliver the value that clients expect, both now and in the future.

As the role of law firm management changes – most notably, with non-lawyers coming into senior management roles – firms need to think carefully about management’s contribution to the health of the business, and how to compensate managing partners and CEOs fairly and transparently for that contribution. This tricky issue is the subject of the final chapter of this book, from John Jeffcock, chief executive of Winmark.

No compensation system is perfect, but any sound compensation system will remove impediments to good management and be flexible enough to address the current and future strategic needs of the firm. This book provides expert insight and guidance to help law firm leaders establish a compensation strategy that will achieve those aims.

About the authors

August Aquila is CEO of Aquila Global Advisors LLC (www.AquilaAdvisors.com). The firm specializes in helping professional services firms design performance-based compensation systems. He can be reached at aaquila@aquilaadvisors.com.

David Baca served as the full time managing partner of Davis Wright Tremaine LLP from 2007 to 2014, and led successful changes to the firm's management structure and compensation systems. Prior to that, his practice focused on corporate counseling, finance, and transactions, with significant experience in mergers and acquisitions. The firm was named Innovative Law Firm of the Year by ILTA in 2015.

David has been lead counsel in public offerings and private placements and has served as outside general counsel to emerging companies and medium-size businesses. He is a proud graduate of Linfield College, graduated from Harvard Law School in 1981, and joined David Wright Tremaine in 1982. He is still a partner at the firm.

Thomas Berman is a senior principal of the San Francisco based consultancy firm of Berman & Associates. Since its founding 25 years ago, Thomas (along with firm colleagues) has consulted with almost 2,000 law firms, corporate law departments, accountancy firms, and state governments in the US, Canada, and the UK. These assignments have included firms of every kind – from a single lawyer to over 1,100 lawyers – and have included every law practice imaginable.

B&A is hired directly by law firms and/or law departments, as well as through independent specialty lines brokers and/or insurance underwriters. Berman & Associates is involved in all phases of law firm practice management, including: technological change in all forms; mergers and acquisitions; partnership/shareholders agreements; calendar systems; conflicts systems; integrated practice management solutions; succession planning; partner coaching; partner/shareholder compensation; and, of course, risk management.

Timothy B. Corcoran is principal of Corcoran Consulting Group LLC, and was the 2014 president of the Legal Marketing Association. A former CEO, he specializes in helping law firm and law department leaders adapt and profit during a time of great change. He authors *Corcoran's Business of Law* blog and can be reached at +1 609 557 7311 and tim@corcoranconsultinggroup.com.

James D. Cotterman is a principal with Altman Weil Inc. He advises law firms on compensation, capital structure, and other economic issues; governance, management, and law firm merger assessments. Before joining Altman Weil in 1988, James was manager of acquisitions for a public company in the health care industry, where he developed, evaluated, negotiated, and integrated merger opportunities.

James is the author of *Cotterman on Compensation*, a blog on lawyer compensation and law firm finance. He is the lead author of the ABA book *Compensation Plans for Law Firms*, and is a member of the board of editors of *Accounting and Financial Planning for Law Firms*. He has been the supervising author for Matthew Bender's loose-leaf text *How to Manage Your Law Office*. His writings have appeared in *The American Lawyer*, *The National Law Journal*, ABA's *Law Practice*, *International Law Firm Management*, and many other publications.

James is a frequent speaker and lecturer, including giving presentations for annual and regional conferences of the American Bar Association and the Association of Legal Administrators, as well as numerous state and local Bar and ALA meetings. He is a fellow of the College of Law Practice Management.

Arthur G. Greene is a principal with Boyer Greene LLC, a law firm consulting firm with offices in Ann Arbor, MI and Bedford, NH (www.boyergreene.com). Following a successful career as a practicing lawyer, during which he served as managing partner of a firm that grew to 70 lawyers, Arthur has turned his professional focus to management consulting with law firms. In recent years, his consulting practice has included profitability studies, revenue enhancement, firm audits, strategic planning, governance, succession planning, mergers and acquisitions, compensation plans, alternative billing methods, and other aspects of maintaining a healthy firm.

He has lectured, conducted workshops, and authored articles and books on a variety of law firm issues. His recent ABA books, *The Lawyer's Guide to Governance* and *The Lawyer's Guide to Increasing*

Revenue, are both in their second edition. His most recent book, *Arthur Greene's Practical Guide: Succession Plans for Law Firms and Rewards for Retiring Lawyers*, is found at www.arthurgreene.com. Arthur is a long-standing member of the American Bar Association and has served as chair of its Law Practice Management Section. He is also a fellow of the College of Law Practice Management. Arthur can be reached at agg@arthurgreene.com.

John Jeffcock, as chief executive of Winmark, improves the performance of C-suite business leaders by bringing them together to share experiences and best practice. The idea is that most business leaders would rather learn from their peers than from a consultant or an academic. Winmark does this through running 15 focused peer learning networks, including for managing partners, non-executive directors, chief learning officers, chief human resources officers, chief information officers, and chief financial officers. John is one of the best networked people in a UK plc and has extraordinary FTSE and Fortune access and knowledge.

As well as an MBA, he has an MA in Poetry and has published two books of poetry. He is recognized by the media as a commentator on networks and poetry and has been featured on the BBC, Sky, SSV (Radio and TV), Yahoo News!, Swedish National Radio, *Jornal de Negócios*, *The Washington Times* and in the UK's *Times*, *Guardian*, *Independent*, and *Telegraph* newspapers.

John is a governor of Ealing, Hammersmith and West London College, a trustee of School-Home Support, president of the Coldstream Guards Isle of Wight Association, and he sits on the Companions Assessment Panel for the Chartered Management Institute. His contact details are john.jeffcock@winmarkglobal.com or +44 (0) 20 7605 8000.

Joel A. Rose is a certified management consultant and president of Joel A. Rose & Associates Inc., management consultants to the legal profession. The firm, national in scope, is headquartered in Cherry Hill, New Jersey.

Joel received a BS from New York University and an MBA from the Wharton Graduate School of Business, University of Pennsylvania. He has extensive experience consulting with private law firms and government agencies. He performs and directs consulting assignments in law firm management and organization, strategic and financial planning, lawyer compensation, the feasibility of mergers and acquisitions, and marketing of legal services. He has extensive experience planning and

conducting retreats and special expertise resolving problems among and between lawyers.

Joel's articles on law office management and economics appear in the *Philadelphia Legal Intelligencer*, the *Pennsylvania Law Weekly*, the *New Jersey Law Journal*, *The Texas Lawyer*, publications of the Association of Legal Administrators, and other state and local bar association journals. He is the principal contributor to *Thrive*, the blog of the Law Practice Management of the New York State Bar Association.

Joel is a contributing author of the book *Model Partnership Agreements for New York Law Firms*, published by the New York State Bar Association, and author of chapters in the monographs, *The Quality Pursuit: Assuring Standards in the Practice of Law*, and *The Professional Managers in the Law Office*, both published by the American Bar Association. He also contributed a chapter ("Identifying and Defining Criteria for Determining Partner Compensation") in the previous edition of *Compensation Design for Law Firms* (ARK Group, 2014). He is on the board of editors of *Accounting and Financial Planning for Law Firms* and *Law Firm Partnership and Benefits Report*. He is a member of the Law Practice Committee of the American Bar Association.

Joel frequently presents tele-seminars and webinars for the American Bar Association, The New York State Bar Association, The New Jersey Institute of Continuing Legal Education, The Pennsylvania Bar Institute, The American Law Institute, ClearLaw, and national and international law firm networks. He speaks at national, state, and city bar association meetings and at chapter meetings of the Association of Legal Administrators. He is a member of the Law Practice Compensation of the New York State Bar Association, an associate member of the American Bar Association, and a fellow in the College of Law Practice Management. Joel is listed in the US edition of *Who's Who*.

Julious P. Smith, Jr. is the chairman emeritus of Williams Mullen. He served as CEO of the firm from 1984 to 2010. His practice includes representing and advising business clients in corporate and business matters, including succession planning and mergers and acquisitions. He has specific experience in closely held businesses, the insurance brokerage business, and family businesses. His merger and acquisition experience ranges from small family businesses to major transactions involving publicly traded companies.

A committed community leader, Joey serves as chair of the Richmond Economic Development Authority. He also serves on the board of

directors of the Virginia Sports Hall of Fame and the University of Virginia Alumni Association.

Joey has received numerous awards for his leadership and community service. In 2015, he received the Virginia-West Virginia Chapter of the MS Society's Spark Award for his contribution to the Richmond, VA. community. In 2014, he was named a "Living Legacy" by the Richmond Public Schools Education Foundation. He was also awarded the Hill-Tucker Public Service Award by the Richmond Bar Association and the Patrick Henry Public Service Award by Hampden-Sydney College. He has been listed in "The Best Lawyers in America®" each year since 1993, and in *Virginia Super Lawyers* magazine each year since 2006.

Joey joined Williams Mullen upon his 1968 graduation from the University of Virginia School of Law. He graduated from Hampden-Sydney College in 1965 and has served as a trustee of the institution and as vice chairman of its board of trustees.

Michael Roster has, for the past eight years, been co-chair of the Association of Corporate Counsel's Value Challenge steering committee, a project that is looking at ways to reconnect the cost of legal services with value. He was formerly managing partner of Morrison & Foerster's Los Angeles office as well as co-chair of the firm's financial services practice group worldwide, resident in both Los Angeles and Washington, DC.

Mike subsequently was general counsel of Stanford University, Stanford Medical Center, and Stanford Management Company, and then executive vice president and general counsel of Golden West Financial Corporation. He has also served as an outside director and vice chair of Silicon Valley Bank, chair of the Stanford Alumni Association, chair of the Association of Corporate Counsel, and chair of two start-up companies (Insert Therapeutics and Encirq). He is a former director of the California Bankers Association and the Federal Home Loan Bank of San Francisco.

Mike is currently an adjunct faculty member at USC Gould School of Law where he teaches advanced contracts. He is also a director of MDRC, a non-profit corporation based in New York that evaluates the effectiveness of government and other non-profit programs. Several years ago, he chaired a project funded by two foundations that developed a private sector approach to eliminate abuses in consumer credit cards in the US.