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HOW TO PROPERLY COMPENSATE MANAGING PARTNERS

by

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How to Properly Compensate Managing Partners

These tips can help ensure your compensation packages are fair and competitive.

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At law firms large and small, managing partners perform an essential leadership role for the firm and its members. Many are tasked with outlining the firm's vision, helping raise its visibility, providing important strategic guidance, and offering day-to-day counsel to their lawyers and staff alike.

But despite the importance of this role, many firms struggle with how to appropriately compensate managing partners — or, in many cases, provide no compensation at all. Given the key role that managing partners play, firms should strive to adopt compensation packages that reflect the value of this important work while taking into account the scope of the responsibilities the role requires.

CHALLENGES TO STRUCTURING A COMPENSATION PACKAGE

A number of factors make structuring compensation packages a challenge for law firms. "The managing partner role primarily consists of nonbillable contributions that can be hard to measure — particularly in an industry where compensation is in large part tied to billable hours and business development," says John Remsen Jr., Founder of The Remsen Group and the Managing Partner Forum (MPF).

The lack of an established, consistent compensation mechanism not only makes structuring packages a challenge, but also makes it hard for managing partners to devote the necessary time that the role requires.

In a recent MPF survey of 167 managing partners, those surveyed ranked the following as their most important contributions to the firm (on a scale of 1-7, with 7 being the highest):

1. Consensus building (5.18)
2. Strategic objectives (5.12)
3. Change agent (4.84)

These important leadership-oriented responsibilities are integral to the managing partner role but can be hard to measure.

Another challenge to structuring packages is the lack of an established compensation method and, in many cases, the lack of any form of compensation whatsoever. According to the same survey conducted by MPF, when asked to identify how they are compensated:

- Only 25% of managing partners said they are paid a set amount
- 25% responded that the owners just "figure it out year-to-year"
- 18% responded that it is an unpaid position

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"Many law firms do not view the managing partner role as a full-time, dedicated role, which leaves many managing partners juggling their own practice and the responsibilities of the position," says Remsen. "In managing partner circles, many of them feel like they spend 75% of their time on clients and 75% leading the firm."

Surprisingly, the role of managing partner at most law firms is not accompanied by a formal job description. According to Remsen's survey, 59% of managing partners reported that they lack a formal job description, with another 10% reporting that their firm has one but it is not followed closely. This lack of transparency makes it hard to both identify expectations and measure effectiveness.

KEYS TO STRUCTURING A COMPENSATION PACKAGE

Despite these challenges, firms can ensure they are structuring a compensation package that is tied to measurable value offered by managing partners.

First, Remsen says, firms must make sure that the other partners understand, value and appreciate the scope of the responsibilities the managing partner role entails. The "You got a minute?" conversations, among other things, take up a large portion of a managing partner's time. That said, these highly valuable conversations do not make their way onto monthly or year-end reports, and few partners realize how many of those conversations a managing partner has in a given day. Understanding the breadth of these leadership-based activities is a necessary starting point for valuing the position.

The firm should establish regular review periods to evaluate the managing partner's performance and adjust expectations based on a shift in the firm's priorities.

Second, if they do not already have one, firms should establish a detailed job description for the managing partner role that incorporates objectives, key results and a review mechanism to measure effectiveness. Specifically, the job description should include at least the following:

- **Key responsibilities and strategic objectives:** Like any great job description, the roles and responsibilities of the position must be clearly identified, including both day-to-day and long-term expectations. This level of clarity allows managing partners to better tailor their time and track their progress.
- **Nonbillable requirements:** The description should outline the expected nonbillable hour requirement — taking into consideration the volume of nonbillable tasks that can consume a managing partner's day.

Whatever form the compensation takes, the firm must develop a deal with its managing partner that specifically takes into account time spent on nonbillable work like firm building and counseling attorneys.

- **Reporting:** Managing partners should have a clear understanding of what decisions must be brought to the executive committee or the full partnership for discussion and voting.
- **Review mechanism:** The firm should establish regular review periods to evaluate the managing partner's performance and adjust expectations based on a shift in the firm's priorities.

How managing partners are chosen and the length of their term are key parts of the compensation discussion. To incentivize fluidity and consistency, Remsen encourages firms to choose their managing partner through a formal election process and says the position should have a three-year term with no term limits. "If you get a partner who does an excellent job in that managing partner role, why [would you] want to term them out?"

When it comes to compensation, firms have several options, including providing a stipend for managing partner activities, a percentage of the firm's profits or an annual salary. As a rule of thumb, Remsen suggests that managing partners should be compensated among the top 20% of the equity partners at the firm.

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"Managing partners are being asked to give up a lot of valuable time that otherwise would be spent on billing or building a book of business," says Remsen. "The package must take this time into account and compensate the managing partner based on the high value of these contributions."

In addition to identifying how a partner will be compensated while in the role, Remsen recommends that firms work out "backside protection" for managing partners to compensate them once they have transitioned out of the role and back into their full-time practice. This post-role protection will not only incentivize qualified attorneys with busy practices to take on the role, but also account for the lost opportunity to build and strengthen their book of business. Remsen suggests that for every three years spent in the role, the firm offer one level of protection.

In short, structuring a competitive compensation package begins with a well-defined job description that outlines the scope and expectations of the managing partner role. From there, firms can build a package based on the demands of the role, measurable metrics, outcomes and other key factors. Striving for a more structured, intentional approach will not only empower the firm to make a well-informed decision about the type and amount of compensation, it will also incentivize managing partners to deliver the results that firms should expect from such an important leadership position. ■

ABOUT THE AUTHOR

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