

Trends in Law Firm Compensation Systems

Establishing fair and equitable compensation systems within law firms is a sensitive endeavor that can directly impact firm culture and performance. The Managing Partner Forum's webinar, "Trends in Law Firm Compensation Systems," part of the "Law Firm of the Future" series, addresses this challenge head-on. This webinar explores the criteria and processes that law firms can employ to measure and reward contributions effectively, as well as directions that firms are currently taking with their own compensation systems.

This month, rather than inviting a featured speaker, the audience itself stepped into the role of webinar panelists, through a large number of polling questions and subsequent discussions.

Moderators:

- **John Remsen Jr:** President of [TheRemsenGroup](#) and President & CEO of Managing Partner Forum
- **Uri Gutfreund:** Senior Vice President and Managing Principal at [Ames & Gough](#)

Key Takeaways:

- Determine what behaviors you want to encourage and incentivize in your law firm, and structure your compensation system around that.
- There is no perfect system, so find the one that works best for your law firm, and let it evolve as your firm evolves.
- Implement changes to your system slowly and incrementally, working them into your systems in a way that doesn't gore the compensation of your top performers.

How Do You Measure Contribution?

Understanding how to effectively measure contribution within a law firm is akin to assembling a successful sports team. Just as every player has a unique role contributing to the team's overall success, law firms require a diverse array of talents and efforts to thrive. This analogy illustrates the necessity of aligning compensation systems with the firm's strategic goals to ensure the right people are in the right positions, contributing in ways that best serve the firm's objectives.

Audience polling revealed a prevailing sentiment among law firm leaders: most believe their compensation systems require adjustments, whether minor tweaks or substantial overhauls. However, about two-thirds of the audience admitted their systems had seen no significant changes in the past five years. This inertia suggests that firms generally take a cautious approach to compensation system adjustments, favoring gradual, phased changes to avoid sudden shifts in compensation, a strategy John advocates.

Despite the inherent imperfections of any compensation system, approximately 65% of webinar participants expressed some level of satisfaction with their existing arrangements. This level of contentment, however, does not overshadow the critical areas for improvement that were highlighted. Firm-building contributions, for example, are frequently undercompensated or overlooked entirely, despite their importance to a law firm's growth and cohesion.

Uri pointed to a common challenge at the equity level: a lack of origination efforts from partners, suggesting that rewarding such initiatives could address this gap effectively. Both speakers agreed that recognizing and compensating for the full spectrum of contributions, beyond just billable hours or revenue generation, is crucial for fostering a supportive and productive firm culture.

The Contribution Process

Transparency in compensation was a common theme in discussing how contributions are assessed and rewarded within law firms. A poll indicated the varying degrees of openness among firms, raising an important question: if compensation reflects a firm's strategy, how can team members align with strategic goals without transparency? Uri emphasized that strategy and its manifestation through compensation must be transparent to enable alignment with the firm's objectives.

Polling and subsequent discussion reflected a trend towards maintaining or enhancing transparency around compensation, especially in the past five years. This shift towards openness not only promotes fairness but also ensures that every member of the firm is aligned and motivated towards achieving collective strategic goals, fostering a culture of trust and engagement.

Seniority

Seniority's role in compensation varies widely across firms. According to the webinar, 41% of firms claimed that seniority does not influence compensation, a perspective that Uri expressed some skepticism about. John added context to this discussion by noting that the impact of seniority on compensation often depends on the firm's age. In smaller, first-generation firms, seniority tends to be more heavily weighted, but as firms mature and diversify with laterals, performance increasingly becomes the pivotal factor in determining compensation.

Collections

Collections, defined by John as the personal hours billed and collected by an attorney, play an important role in the compensation models of many firms. Audience polling showed that the majority view collections as a high-priority factor, with their importance in compensation strategies ranging from very to moderately weighted. Despite changes in other areas, the

weighting given to collections has remained relatively stable over the past five years across most firms.

Origination

Origination is often underrated in law firm compensation systems, according to Uri. While some firms avoid tracking origination credit to prevent disputes over client introductions, John called attention to the importance of client origination, noting that the fear of internal competition diminishes in firms with a strong base of institutional clients. Uri countered that the scarcity of effective rainmakers among equity partners in many firms suggests a need for greater emphasis on origination in compensation models. About two-thirds of the firms polled encourage sharing origination credit, a practice viewed differently by the speakers. Uri expressed concern over its potential abuse, while John advocated for its benefits in promoting teamwork.

Firm-Building Contributions

The webinar also tackled the challenging task of compensating for firm-building contributions like leadership, mentoring, and business development, activities vital for a firm's long-term success, yet which remain difficult to quantify. Uri and John discussed the common perception that top performers are undercompensated and chronic underperformers are overcompensated. They argued that, more often than not, the compensation for firm-building contributions does not accurately reflect the value these activities bring to the firm, suggesting a need for more nuanced compensation strategies that better recognize and reward these essential efforts.

Observations from MPF

One fundamental insight from the data is that compensation systems vary widely among firms, shaped by their unique cultures, strategic goals, and operational needs. There is no perfect compensation system. Instead, each firm must develop a system that resonates with its values and objectives, ensuring alignment with the firm's overarching culture and strategic goals.

A successful compensation plan encourages behaviors that are in the best interest of the firm as a whole. Rewarding sharing, teamwork, and a firm-first mentality not only fosters a collaborative environment but also drives the firm towards collective success. Fairness and transparency are important components, ensuring that all members of the firm understand how contributions are measured and rewarded. These principles serve as the foundation for trust and motivation among attorneys, essential for sustaining a positive and productive firm culture.

Finally, the webinar emphasized the importance of a compensation plan's ability to evolve. Recognizing that law firms operate in a dynamic legal and business environment, the plan must adapt to changing circumstances, reflecting shifts in strategic direction, market conditions, and internal growth. Implementing gradual, phased-in changes to the compensation system can help

mitigate resistance and ease the transition, allowing members to adjust to new structures without experiencing sudden disruptions to their compensation.

Audience Polling Data

During the session, we presented 20 rapid-fire live polling questions on issues related to compensation for equity partners/shareholders. One-hundred sixty-five (165) managing partners and law firm leaders participated, with eighty percent (80%) of them leading law firms ranging in size from 25-100 lawyers. Here are some of our findings:

- **Thirty-three percent (33%)** report that their firms have made “**significant changes**” to their compensation systems in the last five years.
 - We find a major **trend toward more objectivity** in compensation systems, with **forty-two percent (42%)** reporting **more objectivity** in their systems. Twenty-nine (29%) report “somewhat more” objectivity. Thirteen percent (13%) report “significantly more” objectivity.
 - In addition, there is an even **bigger trend toward more transparency** in compensation systems, with **fifty-eight percent (58%)** reporting that their compensation systems have become more transparent. Only three percent (3%) report less transparency.
 - Compensation systems are placing **more weight on collections and origination credit**. Thirty-one percent (31%) report more weight assigned to collections, and twenty-seven percent (27%) reporting more weight for origination credit.
 - Firms are placing much **less weight on seniority**, with fifty-seven percent (57%) so indicating. Leadership and firm-building contributions are lightly weighed in most firms.
 - When it comes to **origination credit**, **thirty-nine percent (39%)** say it is “**heavily**” **weighted**. Twenty-two percent (22%) say it is “very heavily” weighted. On the other hand, nine percent (9%) say that they do not track origination credit.
 - **Seventy-two percent (72%)** say that their firms **encourage sharing origination credit**, but only nineteen percent (19%) have firm policy in place. Most firms leave it to the lawyers involved to hash it out.
 - **Thirty-six percent (36%)** of firm leaders report that the **Executive or Management Committee** sets compensation in their firms. **Thirty-two percent (32%)** say their firms have separate **Compensation Committees**.
 - **Forty-two percent (42%)** say that **top performers are undercompensated**. **Eighty percent (80%)** say that chronic **underperformers are overcompensated**.
 - Generally, firm leaders report that seventy-eight percent (78%) of their firm’s equity partners/shareholders are satisfied with their firm’s current systems.
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