Does your law firm have the wrong compensation model?

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Are your coworkers your enemies?

Infighting, rivalries and competition hurt law firms. Research tells us when clients are served by three or more practice groups firm *revenues are five times higher*. If they're served by five practice groups *revenues are 18 times higher*!

Collaboration is profitable.

If it's so profitable for firms and their clients, why is it such a rare occurrence for most law firms?

It's your compensation model.

Does your firm have the wrong compensation model?

It's not always apparent.

It’s easy to focus on the fact that a compensation model works. It’s rare for firm leadership to ask themselves the question, “*is our compensation model working well?*” or “*how much is this compensation model costing me?*” Is there an easier way to determine the value of your compensation model?

There absolutely is.

Here are six warning signs your law firm may have the wrong compensation model.

1. **Self-serving client selection**

Paul has just lost his biggest client. He’s desperate for work so he eagerly accepts a new client who puts $200,000 a year in his pocket. This client is bad for business though – their conflict waiver policy limits his firm’s ability to take on new clients in tangential markets.

2. **Irresponsible rainmaking**

Sue realizes she’s an incredible rainmaker. She enjoys the origination credit she receives from her business development efforts. She’s even more fond of the fact that she doesn’t have to do any of the work. She recruits clients indiscriminately. As a result, she’s brought on several bad clients who cost the firm and other partners a significant amount due to write-offs. Those write-offs hammer those doing the work.

3. Ignoring business development

Patrick feels his time is better spent working on client matters. He can’t be bothered with business development activities, recruitment interviews or public speaking. While it benefits the firm, he gets nothing in the short term, so he prefers to ride on the coattails of his partners and associates.

4. **Partner end arounds**

Stephen has a client who needs help in Geoffrey’s practice area. He doesn’t want to share the origination credit or additional fees with Geoffrey, so he goes to an associate in Geoffrey's practice group and tells a young associate to do the work. He tells this inexperienced associate that he'll let Geoffrey know, only he doesn't. He keeps things quiet, so he doesn't have to share the credit or fees for his hard work.

5. **Matter bartering**

Sue needs help with a client matter. She knows Stephen is the best person for the job, but she decides to go with Patrick instead who doesn't have much experience in the desired practice area. Her reason? He's the partner who's willing to accept the lowest share of origination credit. The client gets a second opinion after seeing Patrick's subpar work. The client eventually decides to take their business elsewhere to a competitor.

6. **Origination sculpting**

Geoffrey has brought a new opportunity to the firm. The problem? Geoffrey doesn't have the skills, experience or acumen to take on this new opportunity. Geoffrey knows *Paul* is a specialist in his target practice area, but he *refuses* to share the origination credit. Geoffrey decides to approach this pitch meeting alone; he loses his opportunity to a competitor who's better prepared. The firm loses an opportunity worth $23 million.

The list could go on.

Client, file and matter hoarding, turf wars, partner silos, poor succession plans, these are a small sample of the many problems firms run into when they have a poor compensation model.

What's the solution?

Peter J. Winders, General Counsel at Carton Fields Jorden Burt, suggests that there are only two options.

1. **Create a framework of rules.** For example, corporate attorneys cannot dabble in litigation. The idea behind this rule is simple; keep attorneys in their practice areas.
2. **Change employee motivation.** As far as solutions go, this one is much more difficult. Firm leadership decides ahead of time what is best for the firm. The compensation model is redesigned to reward what is good for the

firm and punish what is bad for the firm.

Both have their pros and cons.

Which of these plans is best for your firm? Can you use both? I’ll tackle that in my next post.

The wrong compensation model comes with signs

Many firms refuse to collaborate.

While it’s upsetting, this isn’t their fault entirely. It ultimately comes down to your firm’s compensation model. Compensation models that produce hoarding, infighting, end arounds, competition – they’re bad for business. As we’ve seen they cost firms a tremendous amount of money.

Collaboration is profitable.

But it all depends on the compensation system you choose. This is why it’s such a rare occurrence for firms today. It doesn’t have to be that way. In my next posts, I’ll present you with options you can use to improve your firm’s compensation models.