development, or areas where entirely new skill sets are to be developed.

The second and more important objective of the meeting is the recontracting of individual partner contributions for the coming year. The new contract is based on individual past performance, the firm's strategic objectives, and strengths and developmental opportunities previously identified. The final document will not be completed in this meeting, but the major goals will be identified and quantified.

Once all the partners in a department have submitted their new contribution contracts to the chair, individual commitments can be totaled and checked against the departmental budget and strategic goals. This will ensure the department meets its overall contribution to the firm.

At the conclusion of the individual partner meetings, the compensation committee will evaluate each partner's contribution, based on the firm's overall success, strategy and needs. The committee also will evaluate the partners relative to one another. This process groups partners into different hierarchical levels and allows for a firmwide "equity" evaluation.

Before beginning the evaluation process, some firms establish expected distribution percentages. Example: "Relative to our firm's standards, we expect 5 percent to *substantially* exceed expectations, 10 percent to *exceed* expectations, 75 percent to *meet* expectations (with gradations in this category) and 10 percent to *fail* to meet expectations."

Such a distribution ranks partners and helps the firm and involved individuals make long-term career planning decisions. Of course, the ultimate outcome of this phase is pay and bonus decisions.

It is important that a partner be able to confirm his or her performance evaluation independently and periodically and, at the end of the year, validate the firm's pay decisions. Therefore, whatever criteria a firm uses to evaluate its partners in client development, management, billing or collections, the firm's information management system must provide a ready means for partners to assess their individual performances. If partners are measured by something for which the firm can keep records, information should be available to partners to let them "keep score."

Phase IV: Communicating Compensation Decisions The final phase of any compensation program—and the one most frequently overlooked—is communicating the results. Firms that downplay the importance of effective communication squander one of their best opportunities to direct partner behavior and influence firm performance.

The department chair, a member of the compensation committee and perhaps a member of the executive committee should meet with each partner to discuss the individual's pay and bonus decisions. These discussions should clearly and directly link the pay and bonus decisions to actual performance, measured by the goals set in the partner's contribution contract. This is a chance for the firm to explain "why you got what you did" and to discuss how a partner's strengths can be leveraged and what weaknesses must be addressed. It also may be an appropriate time to discuss a partner's long-term career goals and the individual's role in the firm.

The 360-Degree Partnership Compensation System The "360-degree" system described above provides a law firm's management with an effective mechanism for directing partner behavior into the areas most beneficial to the firm. It closes the compensation loop and gives the partners both an explanation of their compensation and an opportunity to redefine their role in the firm and contribution to the firm. In doing this, the system becomes not only a way of distributing income, but a powerful tool for helping a firm realize its strategic objectives and improve the legal skills, training and professional development of its attorneys. The compensation system can help partners appreciate the integral parts they play in their firm's long-term success.

As in all change, the most difficult step is the first. Before creating a new compensation system (or embarking on a major overhaul of its present system), a firm needs the following components:

- A clear, broadly shared and articulated vision.
- A management group committed to undertaking the substantial changes required to achieve this vision.
- A managing partner with the patience and drive to take day-to-day responsibility for implementing and managing the necessary changes.
- A partnership who support the firm's vision and strategy, as well as the behavioral changes required to achieve the firm's goals.

Creating or revising a compensation system in a partnership is a tedious process. The process can consume the better part of a year and substantial amounts of management's time. Change should be undertaken neither lightly nor with the expectation that any fix will be permanent—compensation systems need annual reviews and periodic adjustments to ensure they reflect the firm's current thinking about its strategy. But if you stay the course and commit the necessary resources, you will find the effort well worthwhile. ■

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Earning Your Just Rewards

Evolving (and Revolving) Partner Compensation

Months ago, when you and a few hand-picked colleagues realized your dream of independence by starting your own law firm, you vowed that you'd never repeat the mistakes made by the old, big, hidebound firms where you had worked before. You promised one another that your new firm would reward partners for their contributions to the firm, not just for having their names listed on the door.

Now, a year or so later, you and your new partners are swamped with business. That's good. But with a substantial net distributable income, you're not sure how to apportion the credit. That's bad. Despite your best intentions of rewarding each person strictly according to his or her contribution, you haven't yet found the solid system of partner compensation you want for your firm.

You face many questions. What should be the evaluative criteria? Who should decide? How should the decisions be made? How should this information be communicated back to the partners?

Avoiding Past Mistakes At your old firms, compensation was a largely secret process. You were told it had been designed to reward client development, individual billable hours, tenure with the firm and professional standing in the community. But closer analysis revealed that what this system really rewarded was how much each partner collected.

Collections (or "originations") were credited to the partner listed as the client's "originating partner"—usually the most senior lawyer associated with the client. So what the system really did was compensate for seniority. Of course, many originating partners were actively involved with their clients, but some senior partners relied on junior partners to manage the matters and maintain the relationship.

How will you distribute your net income?

Outlining Your Objectives Not wanting to repeat your old firms' mistakes, you think about what's important in building strong, stable, growing client relationships. Your system should reward both individual billable hours and originations. But origination credit should be shared by all attorneys responsible for developing the business, not just given to the one who made the original contact.

So should you divide origination credits by awarding everyone a por-

In many firms, partner compensation is uneven and unpredictable, based on antiquated formulas. Try this plan, designed with fairness in mind.

tion of a specific piece of business, or give all involved attorneys full credit for the engagement? This is a tricky question, because if you divide the business, who does the apportionment? At your old firms, you remember, there was a real risk of the more-senior partner taking all of the credit. On the other hand, if every partner receives full credit for participating in any piece of work, multiple billing will result in originations that exceed the net income of the firm many times over.

No, you resolve, in your system, although each partner will have an individual goal for client and business development, this goal will be secondary to the collective goals of the department and the firm. Individual partners in a department will be evaluated on the success of their department or team. Extraordinary individual performance will be rewarded, but the success of the team will be worth more in your new compensation program.

In addition to originations, the new system will recognize all aspects of client services delivery and firm building, including activities such as:

- Practice expansion, which measures an attorney's ability to improve and enlarge a client relationship over time, with no fee growth or billing rate increases. One of the best ways to expand a relationship is to cross-sell other firm services to the client.
- Maintaining superior ongoing client relationships and forging multiple contacts at different levels. For example, each attorney on a matter should be responsible for developing a relationship with his or her client counterpart.
- Attorney professional development, including legal skill improvement. Junior partners and associates should be encouraged to develop legal, marketing and presentation skills.
- Practice development—by increasing public awareness of your firm's overall expertise or specialty practice areas. *Pro bono* service, speeches and articles are excellent ways to raise your firm's profile in the community.
- Administrative management within the firm at the departmental, practice or office level.

Laying Cornerstones for the New System

Your partners share similar complaints about your old firms' compensation programs. Common criticisms include:

- No fully articulated plan for how the firm intended to invest its limited resources (human and monetary) in developing its overall practice.
- Lack of clarity regarding what the firm expected in the areas of business development, client tending, professional skill enhancement, associate development or mentoring, and activities to enhance the firm's reputation.
- No documented procedure by which partners received feedback on their individual annual performance.
- Uncertainty as to what specific performance measures were being collected, and their relative importance.

To address your mutual concerns, you and your colleagues might decide on these guiding principles:

- A clearly defined and broadly supported vision for the firm, and a strategy for achieving it.
- Clearly defined roles for partners, with explicit expectations.
- A structured goal-setting and evaluation process that provides partners with frequent constructive feedback.
- Wide availability of substantive data that will enable partners to validate compensation decisions using available guidelines and criteria.

Based on these principles, you and your committee can begin developing your new compensation system. The process is both time-consuming and complex. You'll spend much time defining what's important to you and your partners. Often, because of differing opinions, your committee will have to compromise, then develop a consensus among the partnership as a whole before anything can be documented.

Ideally, your committee should develop a "360-degree compensation system," perhaps with the help of a consultant. The "360 degrees" refers to the system's continuous-improvement nature and process. Goals that support your firm's strategic objectives must be set, monitored and evaluated. At the end of each year, partner goals will be re-evaluated within the strategic needs of

the firm and adjusted, as agreed upon by the individual partner and his or her department chair. Then the whole process starts over for the next year.

As you formulate your new system, you'll go through four phases: 1) vision and strategy development, 2) individual partner contracting, 3) assessment and recontracting and 4) communicating compensation decisions.

Phase I: Vision and Strategy Development

Although strategy development is often perceived as a long, arduous process, strategy is really a firm's answers to a logical series of questions about how it will allocate limited resources. Some of the questions to be addressed are:

- What does your firm want to be famous for?
- How will it build a perceived competitive advantage in the marketplace?
- How much will the firm invest in practice development? Who will make those investment decisions, and what will be the investment criteria?
- What individual partner behavior(s) does the firm want to promote or change?
- Which partner activities does the firm want or need to reward?
- Which partner activities is the firm unwilling to accept?
- Who will "own" the firm's clients?
- What aspects of the firm's culture are very important to the partners?

This list is by no means inclusive, and the answers to one question may provoke several additional questions. However, the answers—and *how* you arrive at them—will define your strategy and investment criteria and help identify the varied ways individual partners contribute to the firm's strategy. Partner contribution roles may include legal expert, matter supervisor and client relations manager.

Phase II: Individual Partner Contracting

This phase has two distinct steps. In the first, each partner develops an individual contract outlining how he or she will contribute to the firm's success. These contracts are developed within the context of the previously defined contribution roles and are "negotiated" between the partner and the department chair. They usually require the approval of a member of the executive or compensation committee. These contribution contracts are developed late in the year, as part of the firm's business planning cycle for the coming year. They are based on the clearly defined and differentiated partner contribution roles developed in Phase I.

The contracts should include specific performance goals that, when achieved, will produce identifiable results to help the firm with its overall strategy. For example, partners Smith and Jones were from the same law school class. Smith is a brilliant technical litigator with a remarkable ability to categorize, evaluate and remember hundreds of facts and circumstances. Jones combines a fine legal mind with a strong, practical business sense. His clients turn to him to test ideas or business plans, and he often helps develop strategies to acquire new business before a specific business is even identified.

The talents of these two partners can be optimized in different ways. Smith's role could be that of the "attorney expert," while Jones' might be that of "client relationship manager." Each partner's contribution contract would recognize the individual's areas of expertise and establish different objectives and evaluative criteria. Smith might be evaluated on the quality of her work, the complexity of the litigation she handles and her responsiveness to clients. Jones could be evaluated on the selection and management of the attorneys performing individual matters, overall client satisfaction, identification of potential new business opportunities with the client and the quality of the work performed under his supervision.

In the second step, which occurs late in the firm's business year, each partner must submit to the compensation committee a written self-assessment of contributions. This assessment would compare the contribution contract goals against actual achievements. The assessment would allow a partner to detail noteworthy accomplishments that were not in the original contribution contract, and to add perspective on the final year-end results.

Phase III: Assessment, Evaluation and Recontracting After all the written self-assessments are submitted, the year-end process can begin. Individual partners meet with their department chairs and a member of the compensation committee to review their achievements for the year. The basis for this conversation is the individual partner's contribution contract and the actual achievements. As in the old compensation system, individual partner performance data—"the numbers"—are still a major topic of discussion. But now, individual contributions in more subjective areas (attorney development and firm management, for example) are included.

The review and discussion of the previous year's performance are not the primary objectives of these meetings. After all, the contribution contract was quite specific about the individual's contribution, and the results should be known even before the meeting. There are two primary objectives for this meeting. The first is to get the partner's perspective on how the year went, so special circumstances can be factored into the annual evaluation process. Part of the discussion should center on the partner's professional skills and those areas which might need additional