Groundbreaking Research

Rethinking Reward

The globalization of law firms adds cultural differences to generational differences as firms step up to the challenge of identifying future partners. So what's inside the hearts and minds of the next generation of professionals? Is it different depending on their age, their location and their culture? What motivates them? What do they aspire to? What do they need to develop as professionals? What do they value in terms of rewards?

Curious about all of these issues? I surveyed associates and partners around the world during 2004.

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What do associates around the world value in terms of reward? This article, the third in a series, explores the issues of monetary and non-monetary rewards that associates value and challenges the traditional thinking in law firms.

“Compensation drives behavior.” How often have you heard that phrase?

When we asked associates and partners from over 63 firms world wide, “do you think your present compensation/bonus system adequately compensates the behaviours the firm claims to value”, almost 60% of the associates said no. Perhaps the associates just don't really understand the compensation system. Indeed 40% of the partners who responded agreed.

"The firm claims to care about community, but recently removed all pro bono hours as counting towards billable hour goals.”

“The firm claims to care about signature clients and doing more valuable work. The current compensation system rewards hours. There is no reward for building client relationships or for attracting better work – more valuable work.”

“The firm claims to value quality but the compensation plan rewards mediocrity. A good hour has the same value as a bad hour and those who work slowly or who don't utilize technology reap the rewards.”

Firms reward hours because it is easy. Rewarding the depth of client relationships, innovation, creativity and quality is difficult. Non-monetary rewards are equally important. They are also difficult to deliver because they require behavioural changes. These are tough issues with no easy answers.

Pay

Professional service firms compete for two things, talent and clients. One is inseparable from the other. Particularly in law firms because unlike some other professions, clients hire lawyers not firms.

From the most junior graduates to lateral partners, lawyers are attracted to firms for many reasons. These reasons are closely linked to the firms strategic decisions. Indeed the lawyers I work with consider about eighteen different things when they consider a new opportunity.

What do laterals consider? Whether they go through this list explicitly or implicitly, laterals will determine the things on this list that are deal breakers, those that are nice to have and those they're prepared to trade off to get what they want. Everyone is different. "Fit" has a lot to do with alignment between the individual and the firm. How does your firm address each of these priorities?

- Working in a team
- Contribution to Society
- Pay / Income
- Equity ownership / Partnership
- Mentoring and training
- Leadership of the firm
- Future earning potential
- Geographic Location
- Strategic direction of the firm
- Influence and power
- Intrinsic nature of the work
- Time (for family friends & leisure)
- Prestige and status
- Personal Growth
- Professional Growth
- Security
- Alignment of firm with my practice
- Firm Culture

When asked to identify their deal breakers from this list, pay is seldom mentioned. Future earning potential might be, but seldom pay at the outset.

Lawyers are attracted to firms that have a winning strategy. They may be attracted to a geographic location. (NY, NY: If I can make it there, I can make it anywhere.) They may be attracted to a firm because of a leader with name recognition in a particular practice area or industry focus. (Hitch your wagon to a star.) They may be attracted to firms that appear to have momentum in their market place. (We all want to be on a winning team.) Lawyers are typically not attracted because of pay. Firms that pay at the top of their market often are maligned with other adjectives: sweat shop, 24/7, hours, hours, hours.

Lawyers do want to be paid fairly for their market. Firms struggle with this as much as any compensation issue. As one partner in our survey said "we are a multi-office, national firm and some of the firm-wide rules that are adopted are difficult to reconcile with the economic and competitive legal market in our city." That partner went on to say that the firm is reluctant, as a whole, to raise the general compensation levels. Why is it that firms cannot adjust for the markets where they have offices. Why not a base pay plus market differential? Rents vary, the cost of support staff varies and the rates charged to clients vary by market.

Competition for talent varies by economic region. Firms are faced with internal competitiveness and internal equity issues clearly struggle with setting pay levels that are competitive and perceived as fair.

Many of us remember the "Gunderson Effect" that characterized the Year 2000. In January of that year Gunderson Dettmer Stough Villeneuve Franklin & Hachigian boosted first year associates wages – by 45% – a bold and auspicious strategy designed to bolster recruitment of new talent and retention of associates already on board – they did so in a market where the allure of Silicon Valley dotcoms had precipitated significant brain-drain on law firms. The move sent reverberations around North America that have had a lasting impact on scores of law firms as they were compelled to respond to a compensation strategy that was at best market-specific and at worst unproven as an effective recruitment and retention tool. An initiative that was market-specific created a tidal wave across North America. Many of the country's top firms have not touched first year salaries for the past three years and are holding again in 2005.[1]

Incentives

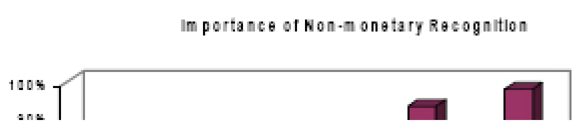
In the research project that culminated into Jim Collins best selling business book ***Good to Great***, the team thought that "the amount and structure of compensation must play a key role in going from good to great. How else do you get people to do the right things that create great results? We were dead wrong…" "The good-to-great companies understood a simple truth: The right people will do the right things and deliver the best results they're capable of, regardless of the incentive plan." [2]

Collins team got to the most important point about compensation. "Spending time and energy trying to 'motivate' people is a waste of effort. If you have the right people, they will be selfmotivated. The key is to not de-motivate them."[3]

In our survey, the de-motivating power of a poor compensation and bonus plan arose time and time again. Respondents said that the current system promotes:

- "mediocrity"
- "creates uncertainty and lessens associate morale"
- "rewards quantity (in terms of hours) not quality (in terms of client service and intellectual contribution)"

The future partners and future leaders in most firms stand out just as future hockey stars stand out at summer hockey schools. Getting those future leaders working on the right engagements, with the right people and in the right practice groups is a primary motivator. In the words of Jim Collins this is "getting the right people in the right seats".



Incentive plans that reward hours alone "encourage you to stop billing once you hit the maximum target". Even the brightest stars can be de-motivated by systems designed with the best of intentions.

Non-monetary recognition is important to associates worldwide but cultural differences are very interesting. In North America for instance, 81% of associates told us that recognition is important. That number jumps to 99% in South America, 93% in Asia and 85% in the UK and Europe.

One partner indicated that his firm has lunches for associates who bill a certain amount during historically slow months. Interesting! *What about rewarding associates who pull apart a few files during slow months to find a better way of doing the work when things get busy again?*

Firm leaders who communicate successes are getting it: Recognize the "successes" but also recognize the "good tries".

One partner noted that "non-monetary recognition is tricky" because financial expectations are "hard on the heels of such recognition", accordingly, recognition is not always delivered to the extent possible.

Associates had this to say:

- "A 'thank you' goes a long way."
- "An occasional 'atta-boy' is always appreciated."
- "When clients tell a partner they are happy with my work, the partner always shares it with me and with partners who may not have worked with me."
- "A great place to work makes all the difference."

When asked if non-monetary rewards are important, we felt we had hit a nerve. On the one hand, "recognition can be so much more valuable than money". On the other hand:

- "With all the loans I have, financial rewards are better."
- "A free lunch? a handshake? A bouquet of flowers? No, these things don't mean anything to me."
- "Recognition is very important but I'd also like the good stuff to appear on my review – which other partners see."
- "Recognition is extremely important. I know I do a good job but I also need to know it is recognized."

While enjoying my coffee and newspaper the other day I read that there are two kinds of people in the world who respond well to recognition; men and women! The type of recognition and the value placed on it varies by personality type. Some people value a quiet sincere acknowledgement of a job well done, while others prefer a public forum and frankly aren't even that concerned about how sincere it is, as long as they are recognized. We now know that culture also impacts the need for recognition. The challenge for a partners, group leaders and managing partners is to get to know the people with whom they work and to understand what each individual values in terms of non-monetary recognition.

The Complicated Challenge of Rewarding Partners

When we asked if the present compensation system adequately compensates the behaviours the firm claims to value, 60% of partners said yes compared to 44% of associates. 56% associates said no compared to 40% of partners. From the perspective of associates, partner compensation is difficult to understand. Associates see partners who hoard work but who have high billing credits with a spring in their step at partner compensation time. Associates also see partners who 'eat their young' get rewarded because they are big producers. Tracking hours and fees is definitely easy. Understanding the profitability of either of these behaviours is much more difficult to measure.

Rewarding the behaviours that the firm espouses takes tremendous courage on the part of firm leaders. The complicated challenge of rewarding partners is a topic for another day but know that no matter how confidential your process, people know, partners know and associates know exactly what gets rewarded. And what gets rewarded determines behaviour!

1. The Salary Wars and their Aftermath, National Association of Law Placement (NALP)
2. Good to Great, Jim Collins, Harper Business, 2002
3. Good to Great, p 89

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