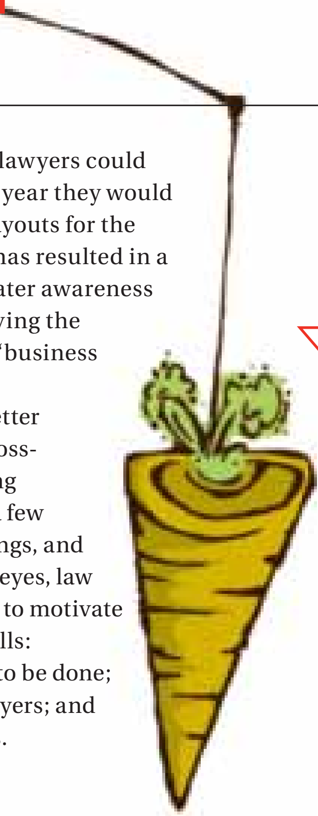
Aligning compensation with goals

Law firms need to motivate and incentivise their lawyers to embrace business development, cross-selling and project management, says Brian Taaffe

Over the past few years, law firms have been experiencing greater pressure from their clients to lower rates and offer creative pricing, as well as further discounts at the time of billing – resulting in the need for better project management. Typically, this has not been something many lawyers are used to doing, or particularly want to – and to further complicate it, most lawyers do not have the skills and understanding of how to do so effectively to achieve the desired revenue and profit margins.

Motivation



Due to decades of high profits, lawyers could simply practise law and year after year they would see increased salaries and high payouts for the partners. However, the recession has resulted in a more competitive market and greater awareness from the clients; these days achieving the desired profits is not as simple as "business as usual".

Lawyers are now tasked with better project management, increased cross-selling, and more strategic planning (business development), but only a few understand how to do all these things, and even fewer actually want to. In my eyes, law firms should be doing three things to motivate their staff to embrace these key skills: educating on why/how this needs to be done; providing the right analyses to lawyers; and aligning incentives with firm goals.

Education

Lawyers are intelligent, but their skills lie in practising law, not running a business. Effective leveraging, cross-selling, and creative pricing are terms they are familiar with, and probably understand in theory; however when it is put into practice, few know how to do it effectively. For as long as I have been working with firms, their revenue has been largely aligned with what they produce, so telling the lawyers they need to do X, Y, or Z will not change much.

Lawyers need to be educated on how and why to do these things – create workshops for the lawyers, work one-on-one with them. They should be taken through their clients' historical data and shown where/ how they may have been able to achieve higher profits with key clients they are responsible for. Create "what if" modelling at a very high level and present to them on why these things are important (ie, how it will increase their wallet).)

Analysis

I look at the reports that are given to the lawyers to drive business development and cross-selling, as well the tools to project manage (if any at all), and my first thought is "rubbish". The reports are lists of clients, and almost always focus on the "top clients" – which is either defined by invoices or collections; both of which only tell you which clients brought in the most revenue. Rarely do I see reports where the list of clients is based on hours, realisations, speeds, or margins.

Firms should be focusing on developing and improving high value clients, not the ones that are bringing in the most revenue. Lawyers already know the top clients; they do not need a list to identify them. Reports should focus on clients with potential high lifetime value. For example, clients that are loyal but volatile (high hours, but inconsistent), or cross-sell opportunities (high hours, good realisations and margins, but only have work done in one practice group), etc.

Aligning incentives

Lawyers' behaviour is similar to sales people – "eat what they kill"; meaning that they act according to what brings them

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the most compensation. In most cases, that has been largely aligned with what they bill. While I agree that compensation structure works for law firms, it is not ideal if the firm is trying to grow their business, improve cross-selling, and manage their matter/clients better. It does not motivate an individual to manage their work efficiently, or focus on growing *the* business; only their book of business.

Incentive plans for partners must be aligned with firm goals – if the firm wants to push cross-selling, then a percentage of their profits must be based on hitting an ideal cross-sell percentage. If the firm wants to push better matter management, then realisation, speeds, and rate analysis should be included in their compensation structure. Whatever the current firm goal is, it must be incorporated into their end of the year compensation.

Law firms have been lucky (for the most part) in that they never needed to place a large focus on managing the business, and understanding the factors related to revenue management. They could charge high rates, discount what was needed, and work to their yearly target bringing them a fairly high compensation at year end. To drive better management, changes must be made.

- Reports must identify opportunities, and areas of improvement. They must focus on key areas, and not be large lists of data that just give you a "that's an interesting analysis" response.
- Lawyers must be educated on why better management is need and the results it can produce (higher profits for all), as well as teach them how to use the reports built.
- And most importantly, compensation must align with firm goals, and it must be well communicated to the partnership.

Conclusion

Times have changed. Clients are more aware, and no longer can firms operate as they have in the past and continue to realise the high profits they became accustomed to. Culturally, law firms are slow to change, and they do not want to be responsible for project management, cross-selling, greater penetration into emerging market, or whatever your firm's initiatives are. You can educate them but without the right incentives nothing will change. The only real way to alter behaviour is to affect their wallets, and that's best achieved through aligning compensation with goals.

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