

Compensation Innovation: An in-depth exploration into the future of law firm compensation



EDITED BY ALEX DAVIES

Head of events and books

Leah Darbyshire

Commissioning editor

Alex Davies

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UK, Europe and Asia office
5th Floor
10 Whitechapel High Street
London, E1 8QS
United Kingdom
Tel: +44(0) 207 566 5792
publishing@ark-group.com

North America office
4408 N. Rockwood Drive, Suite 150
Peoria IL 61614
United States
Tel: +1 (309) 495 2853
publishingna@ark-group.com

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Executive Summary

Commentators have argued for many years that law firms need to move forward from their traditional, seniority-based compensation systems. But it's not enough to simply add performance-related elements at the edges of these. Shifting generational-based attitudes; changing career aspirations; increasingly demanding clients; and pricing innovation and development in the range of benefits that can be offered (both financial and non-financial) all conspire to urge firms to rethink how their compensation system operates at all levels, across the whole firm.

By reviewing these emerging factors, *Compensation Innovation: An in-depth exploration into the future of law firm compensation* aims to inspire law firms towards future proofing their compensation systems so that they continue to deliver results as their partnerships age. Exploring also the interplay between compensation and succession planning, and compensation and lateral hiring, the authors keep one eye to the future and the other fixed on the bottom line throughout. The result is thorough and practical advice that enables firms to develop fit-for-purpose compensation systems that can be effectively managed to drive the right behaviors and, in turn, financial success.

In chapter one, August J. Aquila, principal of AQUILA Global Advisers LLC, sets the scene, explaining that many law firms are operating compensation systems that actually hold them back from achieving growth. Economic, social, and market change have rendered traditional compensation models out of date. Changing a compensation system in a law firm may be a herculean task, but it's worth it, August argues, because rewarding high performers has a direct impact on results.

Building on the performance theme in chapter two, John Chisholm, a consultant, urges law firms to stop measuring their professionals and their performance solely by time. John explains how adopting a better business model focused on outcomes and results, and built on value-based pricing, requires firms to adopt different measurements, rewards, and compensation structures.

Relating compensation innovation also to pricing, Paul Lippe, member of the Advisory Board at Elevate Services and formerly CEO of Legal OnRamp, encourages firms to think about lawyer reward in relation to client success in chapter three. He examines how law firms and their in-house clients can work together to establish common metrics and methods for mutual success.

Any firm innovating its entire compensation system will need to review associate-level compensation, and in chapter four, Dan O'Day, vice president, sales and client services, American LegalNet, explores the reasons why top law firms pay such high rates for associates even though in many cases it is not profitable for them to do so.

Oftentimes, firms are unable to make an educated estimate of what a lateral hire is worth because of the limited background information that is typically gathered during the recruitment process, which may not in itself be accurate. Paying too much for a lateral hire can be costly, but as Rebecca Holdredge, chief operating officer at Decipher, shows in chapter five, conducting effective due diligence not only helps firms assess the risk involved in a lateral hire but also to determine the right price for it.

Not all associates share the same career goals, and associates often serve the firm in different ways, performing different roles according to their strengths and weaknesses. In chapter six, Arthur G. Greene, principal of Boyer Greene, LLC, argues that understanding this is critical to innovating a compensation system that will maximize the contribution of associates and keep the firm financially healthy. Arthur explains that it's not enough to simply redesign the compensation system. Firms need to follow through with effective management of the compensation process afterwards, too, in order for the project to be successful.

Two common and daunting compensation challenges facing law firm leaders today are associate elevation and succession planning. In chapter seven, Timothy Corcoran, principal, Corcoran Consulting Group LLC explores, at one end, how we identify and reward those who are destined for a partnership stake and, at the other, how we reward partners approaching retirement and the transition of client work to younger partners.

The law has evolved over time and so lawyers tend to prefer innovation by small increments. But in every generation there are one or two individuals, or firms, who redefine an area of practice with a bold paradigmatic change of the sort one more commonly expects to find in sectors such as tech or investment banking. When those changes are successful, they set the scene for the next phase of incrementalism within that new paradigm. In chapter eight, Simon Nash, director of

Insight Limited and former global HR director at Carey Olsen, shows how practices of different sizes have sought to innovate their reward structures, demonstrating how solid management outcomes can be achieved, whether in terms of the Maister model variables of margin, pricing, utilisation, and leverage, or through a psychological analysis of extrinsic and intrinsic work motivators.

In chapter nine, Benjamin Viney, director talent and rewards, and Polina Pavlova, consultant at Willis Towers Watson, take a holistic view and discuss the lawyer's total reward package which they break down into four key areas – foundational rewards; performance rewards; career and environmental rewards; and the employee experience as a whole. Benjamin and Polina demonstrate that you can then segment your approach to take account of the different preferences of your employees.

Forming part of career and environmental rewards is work–life balance, and in chapter ten, Nina Gray, CEO of Gray Legal Search, explores how this operates as an employment benefit in more detail, weighing up the benefit to the employee as against the cost to the law firm of making it happen. Nina will explore the various options that firms can deploy, including the use of shared office spaces and 960 working, and the impact of flexible working on social interaction and data security.

Taken as a whole, *Compensation Innovation: An in-depth exploration into the future of law firm compensation* offers fascinating insight into how compensation models in law firms are changing, and how these may result in improved performance, higher retention rates of star players, and a more competitive market.

About the authors

August J. Aquila is an internationally known speaker, consultant, and author, and has held leading positions in the accounting profession for more than 30 years. He held several executive leadership positions with American Express Tax and Business Services, Inc., was a partner in a top-50 accounting firm in Chicago, and regional marketing director for Coopers & Lybrand in Chicago.

August specializes in helping firms develop performance-based compensation plans, transitioning firms from one generation to another, creating transformational strategic plans, conducting dedicated M&A searches, and taking firms to the next level.

In 2004, 2007, and 2009 to 2017 he was selected as one of the “Top 100 Most Influential People in The Accounting Profession” by *Accounting Today*.

He is the author of hundreds of articles and several books on practice management, mergers and acquisitions, and compensation plan designs.

Now a recovering third generation lawyer, **John Chisholm** was previously a partner, managing partner, and chief executive of two major Australian law firms before establishing his own advisory practice in 2005 to share his expertise and experience with professionals who look to maximize the wellbeing of their people and their firm’s business performance. A commentator and advisor in the profession, he speaks, writes, educates, facilitates, coaches, and consults in Australasia, the US, and the UK. As a lawyer, John experienced at first hand the benefits and drawbacks of the legal profession pricing its services solely by reference to time.

Timothy B. Corcoran is principal of Corcoran Consulting Group, LLC, and was the 2014 president of the Legal Marketing Association. A former CEO, he specializes in helping law firm and law department leaders adapt and profit during a great time of change. He authors Corcoran’s Business of Law blog and can be reached at tim@corcoranconsultinggroup.com.

Nina Gray is CEO of Gray Legal Search and a globally experienced recruitment consultant and search executive, placing lawyers and executives for over 30 years across the USA, Latin America, Europe, the Middle East and Africa.

Arthur G. Greene received an AB from Syracuse University in 1964 and an LLB from Boston University in 1967. He joined the law firm of McLane, Graf, Raulerson & Middleton in 1967 and became a partner in 1974. Arthur established a statewide trial practice, which focused on land use litigation, tax abatement appeals, environmental litigation, business disputes, and personal injury cases. The firm grew from 13 to 27 lawyers in four statewide offices. He was involved in the management of the law firm from 1980 to 1992, serving during those years as a member of the management committee and as managing partner for a three-year term from 1985 to 1988. In 2000, he established a small law firm in which he practiced for a number of years. Arthur has lectured and conducted workshops, and written articles and books on a variety of law firm issues, including trends in the profession, responding to client demands, implementing alternative billing methods, marketing, leveraging with legal assistants, associate training and career development, creating and organizing effective practice groups, evaluating solutions to financial challenges, trends in partner compensation, affecting change in the law firm culture, succession planning, and preparing lawyers for the future.

Arthur is a long-standing member of the American Bar Association and has served in many capacities in the ABA's Law Practice Management Section, including past chair of the section and present finance officer and liaison to the ABA Commission on the Billable Hour. He is also past chair of the ABA Standing Committee on Legal Assistants. He is past chair of the New Hampshire Bar Association's Law Practice Management Section and a past member of the Bar's Future of Law Practice Task Force. He has served on the advisory board of the Legal Assistant Management Association, is a past member of the Conference Committee of the Association of Legal Administrators, and is a fellow of the College of Law Practice Management.

Rebecca Holdredge, chief operating officer at Decipher, is a business leader with over 15 years of innovation, analytics, and operational experience within professional services organizations. As an actuary, attorney, and Six Sigma Black Belt, she has a passion for logic and process improvement. She joined Decipher from Bryan Cave LLP, where she managed an award-winning group focused on encouraging attorneys to

improve efficiency, transparency, and quality by developing best practices and leveraging technology. Rebecca is credentialed as a Chartered Enterprise Risk Management analyst through the Society of Actuaries. She earned a JD, magna cum laude, from Tulane University School of Law, and a BS, magna cum laude, in Math and Computer Science from Washington University in St Louis. Decipher is an independent corporate intelligence provider that assists firms with reducing the risk of a bad executive-level hire.

Paul Lippe is a member of the advisory board of Elevate Services, which acquired OnRamp Systems, where he was CEO. Paul is focused on metrics and performance improvements for legal departments, particularly around M&A, divestitures and commercial contracting.

Paul was at various times general counsel and senior vice president of business development and corporate marketing at Synopsys, an electronic design automation company. Paul was also CEO of Stanford SKOLAR, a medical digital library and e-learning company spun off from Stanford Medical School. A graduate of Yale College and Harvard Law School, Paul speaks and writes regularly about the “new normal” in law. Prior to law school he was a special assistant to Senator Daniel P. Moynihan (Democrat, New York) and was chairman of the Colorado Air Quality Control Commission.

Simon Nash read his LLB at the University of Bristol, UK, and qualified as a chartered fellow of the CIPD while serving as global human resources director of Carey Olsen, a prestigious offshore law firm. While at Carey Olsen, Nash doubled the headcount while the firm tripled financial turnover and achieved tier one rankings across all practices. Nash’s work was also recognised with, inter alia, the HR Distinction Award and HR in Law Award. Now Simon runs Insight, a human factors advisory firm, and ValueMetrix, a CSR consultancy. He also has interest in two tech start-ups in the HR data analytics space.

Dan O’Day is vice president of sales and client services at American LegalNet. A growth-focused leader, Dan combines strategic and tactical expertise with strong qualifications in business development, process redesign, and general management. Dan has over 20 years of experience in the legal industry. That experience includes managing business units for Thomson Reuters including Elite’s business development product lines and services. He holds a J.D. and M.B.A. from Pepperdine University and is licensed to practice law in California.

Polina Pavlova is a consultant in the talent and rewards line of business at Willis Towers Watson, based in London, UK, where her primary focus is on legal sector compensation surveys in EMEA. Polina has advised professional service firms on all aspects of their organization, strategy, and reward practices. Between 2012 and 2016 she consulted almost exclusively on equity partner remuneration, pay-related governance and performance management, working with a diverse group of professional service clients in EMEA.

In 2015, in cooperation with the Managing Partners' Forum she prepared the Professional Services Sector Performance Management Study conducted among legal and accounting firms. Polina has authored a number of articles in relation to the legal sector, and in 2016 she co-edited a book on partner remuneration in law firms published on behalf of the International Bar Association. Polina holds a master's degree in European Political Economy from the London School of Economics.

Benjamin Viney is consulting director of talent and rewards at Willis Towers Watson in London, UK, with 18 years of client service experience, and leads the firm's Total Reward Optimisation (TRO) services across Western Europe. He has worked with professional services clients in the UK, Europe, South Asia, and the Middle East. Benjamin is a chartered accountant and spent the first seven years of his career working as an auditor at BDO. He holds a BA (Hons) in French and Management Studies from Royal Holloway, University of London.