DIPLOMACY AND THE PARTNER PAY CONVERSATION

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Like the heads of most law firms, I had no training in management when I became president of a professional service partnership and I did a lot of on-the-job learning during my early years. Things went well and the business grew to the point that a governance overhaul was needed. Decision-making responsibility had to be distributed more widely, we needed to elect a larger, more effective management committee and the mechanism for partner pay decisions needed to become (I confess) less capricious.

I had to be told all this but I was happy to go along and even engineer the process as it was a natural progression for an enterprise that had grown too large to be managed single-handedly. It was at that moment I did a very smart thing – I had lunch with a friend who had experience in this sort of change management. Here, approximately, is the transcript of that conversation:

Me: I'm all for this. It's a healthy development for a growing enterprise. So I'm going to hold a big partners meeting and give everyone a chance to state their views about what needs to be fixed and about how to do it. Then we'll get down to business.

Friend: What you are proposing is a recipe for a contentious, disastrous mess.

Me: How come? Prior managerial behavior notwithstanding, I'm a big believer in democracy.

Friend: Then perhaps you've noticed that democracy happens in voting booths with curtains. Just because you've got a vocal, articulate bunch of partners doesn't mean that everyone will get to have their say. What you are planning to stage is a field-day for the strident and disaffected. It's an opportunity to shout. The thoughtful, the uncommitted will be drowned out and what you rightly say is a healthy development will start off with people saying, "Well, I never realized things were this bad."

The right approach, it turned out, was a series of well-structured interviews, individually or in small groups, encompassing the entire partnership, organized and facilitated by consultants from outside our firm. Diagnosis followed, then prescription and further small scale meetings to achieve engagement and consensus. The big meeting happened but it came at the end of the process. It was for informal ratification and optimistic forecasting, not analysis. And the process did what was needed – it transformed the management of the firm and remodeled the pay scheme which, as it turned out, was not so capricious after all.

In the course of this process I found that – quite unexpectedly – having read Henry Kissinger's *Diplomacy* (1994) came in handy. I had read that book, just for pleasure, precisely because it was a far cry from my everyday economics and management readings. Yet, as it turned out, there were useful insights to be gained from it for someone whose job requires satisfying a range of strongly held opposing viewpoints which was certainly my situation at the time of this management overhaul.

One such insight is that robust, long-lasting resolutions arise from compromises from which every faction leaves the bargaining table somewhat dissatisfied at not achieving all that its members might have wished for but none leaves empty-handed, disenfranchised or otherwise driven to revolt. Applied to international affairs, in Kissinger's words:

> By definition a balance-of-power arrangement cannot satisfy every member of the international system completely; it works best when it keeps dissatisfaction below the level at which the aggrieved party will seek to overthrow the international order.

You may remember the examples that have been enshrined in a million term papers: The Congress of Vienna ended the Napoleonic wars. France, the loser, participated in the resolution and was left standing and largely intact. The ensuing multinational resolution kept Europe out of trouble for 100 years. The treaty of Versailles ending World War I was a different story in its origin and its outcomes. Germany and Russia were excluded from the council table and Germany believed itself to have been victimized by the reparations imposed by the treaty. (Keynes thought this was so but Germany's rearmament a decade late is a counter-argument).

In contrast to Vienna, Versailles left an unstable Europe and consequently a host of woes. Needless to say, the history is vastly more complex but the principle of what makes for a sustainable compromise survives. All this, I admit, is bit grandiose as an introduction to the subject of partners' pay but the connection should already be clear.

When the time comes for a law firm to rethink and perhaps reset its senior pay arrangements it's a safe bet that opinions within the partner ranks will differ across many dimensions, the differences will be stark and the opinions will be strongly held. The balance between privacy and transparency of pay outcomes is one such dimension; the balance between individualism and "shared fate" is another.

The message of the comparison with international diplomacy is simple: leave no one of consequence out of the process and try to engineer a solution that avoids leaving a defeated faction. Beneath this message lies a deeper reality: Like nations, law firms differ widely in their history, leadership, capabilities and many other attributes. For this reason, there is no one-size-fits-all pay scheme and there are no "5 Rules for Perfect Partner Pay." At each firm, partner compensation arrangements need to arise out of the preferences of the partners themselves. As in international diplomacy, the objective is an inclusive, stable solution in which even a dominant majority achieves something less than total victory so that minorities are not driven to defection.

Except among firms that have a long tradition of stable pay arrangements into which generations of partners have been born and bred, the leaders of a law firm should expect that the dispersion of opinions about pay determination will be wide.

No such assumption is required, of course, when dissatisfaction has prompted the re-think –then you know that dissent is in the air.

Because preferences are likely to be diverse and exclusion from the process must be avoided, the preferred method of inquiry in a partner pay re-think is the one-on-one interview. The sample of partners surveyed in this fashion should be a large fraction of the pay scheme's population insofar as practical. Averages and other generalizations tend to mislead and loud voices drown out softer ones. Inclusiveness at the start is a crucial part of the formula for getting pay right.

Whether the issue is governance, a revision of partner pay arrangements or any other decision-making likely to importantly affect the livelihood of the members of the partnership, a well-managed round of interviews is the way to go. Have the big meeting at the end.

—Richard Rapp