Strategy and Partner Pay

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Law firm managers who are planning large-scale, hubristic expansion-by-acquisition should study the Dewey LeBoeuf morality play very closely. The rest of us should not. It's a distraction that diverts attention from what matters closer to home.

Permit me to analogize: Those of us who are dealing with the daily stresses and strains of keeping a marriage healthy could, I suppose, closely study the example of Tiger Woods as a way of understanding how marriages fail in a spectacular explosion of adultery. It's not without interest; I have to admit that. It's just that most marriages are at risk from temptations more mundane than legions of willing sports groupies.

Which brings us somehow to strategy and partner pay. The chief strategic problem facing most law firms isn't how to achieve explosive growth as Dewey aspired to do; it's how to avoid stasis and decline in a highly competitive market.

History has taught us that the relationship between scale and success is weak. Law firms can and do succeed at any scale so the need to become gigantic isn't nearly as important as the need to be excellent. The ideal in most instances is a firm of contented partners which enjoys steady-state growth by judicious hiring and professional development. However moderate and reasonable these goals may be, law firms that aspire to achieve them must confront some harsh and contradictory realities:

- The scarce resource is partners who can bring in business
- Growth – even modest growth – requires investment
- Growth – even modest growth by low-cost hiring and professional development – has an uncertain connection to any individual incumbent partners' payout
- Costs invested in growth (or quality of life at work) usually come out of incumbent partners' payout

- Partners who can bring in business will be offered market pay plus a premium for jumping ship and dissatisfaction with current pay will propel departures

So a goal – not necessarily *the* goal --is to keep the business generators satisfied that their pay isn't being spent in a direction that doesn't do them any good while making the firm something more than a way to share overhead. What is the magic formula for solving this problem? Of course there is none. What's the best one can do? Keep the strategy discussion alive in the firm, and not just among its managerial class. Make sure that the moderates have a voice in these discussions. Consensus is the goal but it's a lot to hope for. Mutual understanding and an approved compromise strategy is a satisfactory second best.

A story out of my experience: A basically harmonious firm with two "parties" and a majority of uncommitted partners. At one extreme, the Animal Planet Party whose members wanted to eat what they killed. They were a small, vocal minority of business generators who saw some of their earnings dissipated (in their view) on geographic expansion, lateral hiring and the growth of infrastructure such as recruiting and centralized information resources.

At the other, a larger group, including many rainmakers – the Woodstock Party – content to see the firm invest on a modest scale in infrastructure and on geographic expansion for access to regional clients and lateral recruits. And in the middle, the majority of partners who saw some validity in both positions. They had an extended conversation and achieved a degree of mutual understanding.   Actually, what some of the Animal Planet advocates understood was that they didn't want to hang around. They left to set up their own shop – nothing life-threatening to their former firm. All parties prospered.

You might think that the moral of the story is that you can't always get what you want, even if you get the process right. True enough. But the real moral is that if you get the process right, a defection won't send the wrong signal. The unhappy consequence of a departure, sometimes, is that it causes other mobile partners in the firm to say, "Maybe we are losing out and I should be somewhere else." When strategy and pay principles are discussed in an organized way, a partner's departure is less likely to be surprising and harmful to the firm's morale.

—Richard Rapp