Alternative Compensation Models

A guide to compensation models that promote a customer centric-culture of collaboration

Historically, client relationships in law firms are built and managed by the individual lawyers that serve them. As a result, if a lawyer leaves a firm, they often take their clientele with them. It has been argued that compensation models have been a partial driver of this. Danielle Winkle, CPA at Ostrow Reisin Berk & Abrams, reports that law firms are increasingly moving away from the traditional lockstep approach. Alternative models are emerging; however, to make these methodologies effective, Winkle advises aligning them with your firm's long and short-term goals.

To promote a cooperative compensation model that depends on the success of the organization, law firm strategist Edward Poll recommends that base compensation needs to be tied to the effectiveness of involving other lawyers as part of a team delivering legal services. In the corporate model, compensation is based on what is generated for the organization, not an individual. It reflects the approach of corporations which favors and rewards continuous improvement. Poll states, that the "best compensation approach, therefore, gets away from the star system that rewards only the individuals who stand out from the crowd and also rewards those people who helped the crowd perform better by providing better client service."

According to the Society for Human Resource Management (SHRM), "successful organizations are highly innovative, and innovation requires teamwork for the development of new ideas. Team-based incentives create, as well as emphasize, the need for collaboration across the company," benefiting the organization by being:

- ***Achievement-oriented.*** Focusing on shared goals drives performance and creates a greater impact on organizations in a shorter time.
- ***Self-actualizing.*** Group decision-making and problem-solving encourages teams to grow and develop the capacity to meet evolving customer and company needs.
- ***Humanistic encouraging.*** Team incentives reinforce the necessity of working together and supporting one another.
- ***Affiliate building.*** Group incentives inspire collaborative and cooperative behaviors, which support cross-organizational performance and deliver shared company goals.

The International Society for Performance Improvement conducted a study in conjunction with the Incentive Research Foundation and found that incentivized individuals increased their performance an average of 27%, whereas incentivized teams increased their performance by 45%. Therefore, SHRM recommends incentives be designed to reward the group. "Team incentives fail if individual incentives are layered like a cake. Most people prioritize the individual incentive over the team one every time, if only because they have more control over the outcome."

Public Relations firms have had similar challenges as law firms. During the recession the top firms sought out top-performing consultants, luring them with multiyear guarantees. As talent competition intensified, the industry became challenged with a lack of loyalty among consultants' who were moving to competing firms and taking clients with them.

For Marshall & Gordon, a major international player in the PR sector, its traditional compensation was described as fostering "individual fiefdoms" and almost completely prohibitive of collaboration. This became especially problematic when the company expanded its service offering to include executive positioning, requiring significantly more teamwork. The company commissioned an external taskforce to help develop a new compensation model. Detailed in a case study published by the Harvard Business School, some of the taskforce's findings included:

- Marshall & Gordon's compensation model was unable to reinforce certain key behaviors (quality, firm-building, partnership, collaboration).
- The firm should clearly articulate expectations of its professionals and the firm's direction and hold consultants accountable for those costs that they could control.
- The compensation system should encourage collaboration and appropriately incentivize the desired behaviors.
- It should recognize excellence in the form of superior payouts for high performers, and operate as a tool to retain key consultants.

As a result, the taskforce determined the company needed a compensation system that was more the "firmly tied to the quality of consultants' work and service delivered, and that these would be assessed through two inputs: client surveys and peer review in the form of 360-degree assessments." The design principles of the plan are as follows:

- To reward the "right behaviors" the compensation structure needs to be simple and transparent
- Rewarded behaviors include:
    - The quality of the project
    - Partnership and mentoring
    - Completion percent and time to project completion
    - Profitability and resource use
    - Revenue-sharing
    - New versus repeat business
    - Key account growth
    - Client satisfaction
- Help to retain key talent by paying top producers and recognizing people in leadership and management roles
- Incorporate senior consultants in the design of the system to secure buy-in

Ultimately the compensation systems was largely unchanged; however there was one significant adjustment: "The old system allowed for 10% of a consultant's variable compensation to be the discretion of the practice managing directors (PMDs) based on a consultant's annual performance, the new system would factor in a 40% variable component… The bonus pool was a fixed amount, so for each consultant receiving a significantly higher bonus, someone else's variable compensation had to be lowered by that amount."

Medical groups have also undergone similar problems when it comes to physician compensation. With healthcare reimbursement evolving over the past 15 years from a primarily fee-for-service to value-based, physician compensation models have also had to undergo a change. The previous strategy had been to acquire physicians to ensure certain services remain in the system, thus productivity was the major concern and the basis of the compensation plan. According to *Physician Leadership Journal*, the system now calls for a high-performing medical group (not individuals) and it must exhibit a model of team collaboration.

Because compensation is a key driver of collaboration, *Physician Leadership Journal* outlines a six-step compensation process:

- Create a compensation committee that includes members of various departments.
- Establish a flexible compensation plan that has the capability to evolve over time.
- Build a plan that promotes "teaming" and outcomes. The model should include:
    - A guaranteed salary based on years of experience
    - Incentives for service quality, efficiency, productivity, and citizenship
    - A panel management fee that compensates for additional time spent working with the team
- Take advantage of metrics, establishing a model that is customer focused and rewards excellent quality
- Maintain continuous communication regarding required changes and the reason for those changes
- Move to gradually and proportionally to a more performance-based compensation

With competition in the legal profession intensifying, compensation has become a topic of great interest. And while most law firms report they have a compensation system in place that promotes collaboration, *Law Journal Newsletters*, cautions that this is often hard to achieve in reality. Partners can potentially "push back when origination credits are de-emphasized in favor of a system that awards points to lawyers who do work for someone else's client." But according to Cara Rhodes, legal consultant for Hoffman, Alvary, the "better thing for the institution is to grow the largest client." The key question states Rhodes, is "am I better as a partner at the firm helping a fellow partner on a $2 million relationship or am I better off going out and chasing small clients on my own?"

At Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, the company tweaked its compensation system to reinforce collaboration by not allowing one partner to get 100% of a client's origination credits. "The firm also began awarding origination credits by matter, rather than client, so younger partners will be compensated for opening a new matter with an existing client."

In this age of disruption, companies across all industries are realizing the importance of building a collaborative team that works to enhance the customer experience and retain clients. A firm's compensation strategy is a key component of overall success.

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