# *Letter to Readers*

December 2007 was the start of the most devastating economic recession and credit crisis since the Great Depression. It brought down financial and industrial institutions whose names once represented the gold standards for their industries. Similarly, some great law firms are no longer around. Recovering from those events has been long and hard, and not everyone recovered equally. There have been winners and losers, as there always have been and always will be. The winners are those individuals and organizations who adapt to what is happening around them, who anticipate what various paths may lie ahead, and who embrace change.

The law firm labor market remains under pressure. Labor is the most significant element of a law firm's operations. Many law firms continue to face revenue pressure on many fronts—lower and shifting utilization, a shift in pricing power, and an assault on realization—and accordingly have reduced operating costs. One cannot meaningfully reduce the cost structure of a law firm without addressing labor costs. The fallout is seen in workforce and wage reductions and likely reduced wage growth (the pivotal element of historical wage growth for the profession was the pricing power law firms once had and now may have lost). In addition, some labor functions can be performed without limitation to location, which has led to a growing outsourcing market, both domestic and offshore. And while it is true labor costs are a function of labor rate times productivity, the differential in rate often is significant while the differential in productivity and quality are not. The potential fallout is work shifting to other locations where the costs are demonstrably less, further aggravating workforce and wage reductions. Looking down the road, technology has the potential to seriously disrupt the labor component of delivering legal services, as it has in other fields.

Compensation decision philosophy has also changed. There is heightened importance to current year performance and a shortened look-back period for those firms that measure sustained performance. A key principle widely accepted

in the profession has been that performance over time is more important than performance in a single year. Now, they are of equal importance.

We continue to support the idea that compensation is not a substitute for careful selection of the right people. Authors Jim Collins and David Maister make this point well in their texts, *Good to Great* and *Practice What You Preach*, respectively. Also, there is no single best compensation system. Collins and Maister demonstrate with their research what I have maintained in this text since 1995—the type of compensation program is not what makes the difference; what does make the difference are the decisions the program produces and the people whom you choose to make the decisions. Finally, we may be ready to raise the debate above the old adages "You get what you pay for" and "You get what you measure." While making great sound bites, such statements are a vast oversimplification of how organizations function—or at least how the best organizations function.

The key strategy for those who are serious about improving performance is not to turn first to their approach for compensation. The first thoughts should be about the people and the standards—are they the right people, and are they the right standards? Appendix 6 of this manuscript is possibly one of the more important articles on this topic for law firm managers to read and consider.

After that, it is time to consider how well your compensation decisions support your efforts. Compensation does not drive behavior; it supports management's efforts to get the best behaviors out of people. Do your compensation decisions build trust and credibility in the firm's leadership? If not, then explore what might be changed systemically, procedurally, or both.

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