Rethinking Law Firm Strategy

Early 2010 looks very different for US law firms. As we emerge from the Great Recession, law firm economic prospects are improving. Utilization is up. Realization is better. Inventories and pipelines have been replenished. Revenues are up. After two years [eighteen months?] of aggressive cost-cutting, downsizing and hunkering down, management is dusting off strategic plans that have been on the shelf for several years. Law firms are beginning to resurrect strategies for growth, expansion and diversification. But is that the right thing to do?

For strategic plans conceived in the pre-2008 era, it may be very risky. Our post-recession environment has changed from that which existed before the economic downturn. Interest rates are lower. We have massive government spending deficits. Residential and commercial real estate markets have been decimated. The dollar is stronger against the euro and pound. Clients are newly assertive.

Pricing pressures are palpable. New competitors have entered the market in the form of LPOs (Legal Process Outsourcers), virtual firms and Internet-based suppliers.

The assumptions upon which pre-2008 strategic plans are based have changed, in terms of the competitive environment, client strategies, industry segment structures, the regulatory environment, economic fundamentals and the relative strengths and weaknesses of the firm itself. As a result, strategies conceived in an era of stability, rate increases, hourly billing, salary escalation and ever-increasing profitability may no longer be appropriate. For example, regulatory changes may open new practice areas. Practice areas robust in 2005 and 2006 may not be appropriate for continuing investment. Some geographic regions targeted for expansion may no longer hold promise. New leverage models may be needed. Alternative pricing strategies may need to be employed. New training may be required for lawyers and staff due to the new emphasis on project management and other skills.

Since late 2009, Altman Weil has been engaged by a number of firms to assist with strategy reviews, working with law firm leadership and planning committees to revise or create new sets of assumptions and to vet, cull or create new management, marketing and organizational strategies tailored to the new environment. We have employed a template of assumptions based on trends and uncertainties identified in the Altman Weil sponsored Legal Transformation Study, a comprehensive analysis of the future of the legal profession. Some firms are testing old strategies against current realities and fine-tuning their plans. Other firms have decided to start over with a blank slate to create a new strategic plan from scratch, abandoning plans which are obsolete in today's economic and marketplace environment.

If your firm is operating on the basis of a pre-recession strategic plan or if you do not have a strategic plan that is written, communicated throughout the firm and capable of implementation, a strategy review or strategic planning exercise is critical. Altman Weil stands ready to help.

MergerLine™

Law Firm Merger Mania On Hold in 2009

There were 53 new law firm mergers and acquisitions announced in the United States in 2009 according to ***Altman Weil MergerLine***, down 24% from the prior year. Seventy-nine percent of all new deals involved the acquisition of small law firms with 20 or fewer lawyers.

"This reflects law firms' cautious approach last year, as most firms spent 2009 focused on internal issues of cost cutting, layoffs, and compensation adjustments in response to the Great Recession," observed Altman Weil principal Ward Bower. "But we expect to see an uptick in 2010 as deals currently on hold pending 2009 year-end results, are finalized."

The biggest deal announced in 2009 was the merger of Britain's Lovells LLP with Washington, DC-based Hogan & Hartson. When it is finalized in May 2010, the merger will be the second largest law firm combination ever accomplished, forming a 2,500-lawyer global firm. "The Hogan Lovells merger is going to rekindle interest in trans-Atlantic mergers and acquisitions in 2010," according to Bower.

Two other significant combinations occurred in 2009. In January, K&L Gates, a 1,700-lawyer international law firm headquartered in Pittsburgh announced the acquisition of Bell Boyd and Lloyd with 250 lawyers in Chicago, San Diego and Washington, DC. Boston-based Bingham McCutchen strengthened its Washington and New York offices with the addition of 120-lawyer McKee Nelson in August.

The balance of 2009 combinations involved small law firms, including 42 acquisitions of firms with 20 or fewer lawyers. Forty percent of 2009 law firm combinations were multi-regional or cross-border deals, up from 21.5% in 2008.

"Rather than simple mergers of scale, more firms focused on geographic scope to gain access to new markets in 2009," Bower commented. "This acquisition strategy may be driven by the need to better serve clients and stay competitive as convergence programs are instituted in more corporate law departments."

The complete list of 2009 law firm mergers and acquisitions as well as an archive from prior years and a three-year trend summary are available online from the Altman Weil MergerLine™, which logs law firm combinations as they are reported by media outlets and in press releases; links the user to the original news stories; and, compiles key statistics on each deal. The online service also includes an archive of past mergers and a section of commentary and analysis. You can learn more about this feature at www.altmanweil.com/MergerLine. ◆

"LET'S KEEP IN MIND THAT ALTHOUGH QUITTERS NEVER WIN, THEY SOMETIMES DO MANAGE TO AVOID LITIGATION."

Altman Weil, Inc.

Report to Legal Management

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OUR 35TH YEAR

Riding Out Rough Times

Eric Seeger

By Eric Seeger

The economic landscape obviously has changed considerably during 2008 and into 2009. Investment banks have tanked, the stock market has swung wildly and finished last year way down, credit has tightened, debts have been called in and companies have hunkered down to ride out the storm. Bailouts of banks and automakers have been just the beginning. Law firms entered the new year wondering what lay ahead and what they could do to prepare for and withstand a very difficult 2009.

The Legal Market in 2008

Most law firms have suffered, just like other businesses. Firms that were concentrated in practice areas such as mergers and acquisitions, structured finance, real estate and construction found a lot to complain about in 2008 as clients tightened their belts and put projects and transactions on hold.

Even the most prestigious firms faced layoffs. A Citibank survey of the 165 largest U.S. law firms found that their number of hours billed per lawyer had declined by 5.5 percent in the first half of 2008 and were trending down. Profits per partner in 2008 ranged from flat to down by 10 percent compared to 2007, according to another Citibank survey. Thelen L.L.P. imploded late in 2008, just days after Heller Ehrman L.L.P. dissolved. By year end, nearly a quarter of the firms in the *Am Law* 200 had laid off lawyers, and many others had cut staff, closed offices or deferred geographic expansion.

Although Pennsylvania, the location of Altman Weil's corporate offices, has been more insulated than markets like New York or San Francisco, firms based in the commonwealth have not been immune. According to reporting by Incisive Media:

- Ballard Spahr cut 13 support staff mid-year.
- Blank Rome had nine associates leave the firm after annual reviews.
- Buchanan Ingersoll & Rooney cut 25 legal secretary and administrative positions in November.
- Dechert cut or reassigned 13 associates earlier in the year and announced in December it would cut 72 administrative positions in its U.S. offices.

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- Drinker Biddle was reported to have laid off 20 associates.
- Duane Morris cut seven people from its marketing staff and an additional 15 administrative positions, mainly in Philadelphia.
- Morgan Lewis & Bockius postponed associate bonus decisions from December to January.
- Reed Smith laid off 50 legal secretaries firm-wide in April and announced in December that it would lay off another 115 staff.
- IP boutique Synnestvedt & Lechner lost four partners to Saul Ewing, cut seven staff members and subsequently disbanded.
- Wolf Block laid off 15 lawyers and several staff and delayed the start of its first-year associates.

Outlook for 2009

The consensus among law firm leaders, borne out by the first three months of the year, is that no one knows what to expect in terms of how bad, how deep or how long the current recession will turn out to be. Most predict that the economy will get worse before it gets better. We continue to see firms reallocating and retooling lawyers, decreasing partner draws, reducing or suspending associate bonuses, reducing hiring, delaying start dates, freezing salaries, shrinking their summer programs, calling off merger discussions and otherwise scaling back or putting things off awaiting a better economic climate. The year has begun with more layoffs as firms have reviewed their 2008 results and revised their revenue projections for 2009.

In response to Altman Weil's survey of 115 general counsel in November 2008, about 75 percent said their law departments were facing budget cuts in 2009, with an average cut of 11.5 percent. Outside counsel costs were the top concern. General counsel said they would keep more work in house, use lower-priced lawyers for some of their legal needs and turn to alternative fee arrangements. Having predictable legal costs was a common theme. Less than a quarter of general counsel said they intended to hire additional lawyers in 2009.

Our survey of chief legal officers in June 2008 found that nearly half were looking to bring on new lawyers. We followed up with the flash survey in November just mentioned and found that number had decreased by half, and the number who said they would not hire lawyers in the next year increased from 36 percent to 65 percent.

According to U.S. Bureau of Labor Statistics data, the legal industry lost some 7,000 jobs between December 2007 and December 2008. The pace accelerated rapidly in the early months of 2009. An *American Lawyer* survey of large law firms in 2008 found that 43 percent of respondents expected modest profitability growth of less than 5 percent and another 35 percent expected profits to be flat or down in 2009. Our own Altman Weil flash survey on the law firm "credit crunch," conducted in November with 85 U.S. firms participating, found that two-thirds of the respondents expected to make less money in 2009. Responses from the five Pennsylvania firms participating in the survey were slightly more favorable than national averages.

On the whole, top-tier firms whose profitability increased the fastest over the past six years are experiencing the most significant drops in profitability, largely because they rely on high-end transactional work, serve a greater percentage of clients in the hard-hit financial services sector, and have a more difficult time cutting back on expenses when revenues slow down. Smaller firms in out-of-the-way markets with diverse practices can expect less dramatic fluctuations in their work flow.

Recommendations

Firms are advised to examine the following areas to keep their practices healthy and to get through these uncertain economic times with as little damage as possible.

Economics and Profitability Management

During down cycles, accounts receivable tend to increase as slow-paying and non-paying clients increase. Good financial hygiene becomes increasingly important to manage cash flow.

- Make sure all lawyers are recording all their time promptly and accurately.
- Get your bills out quickly, both to start the clock ticking and to link the bill more directly with the work that was performed. Appreciation for your efforts can fade with time, along with the desire to pay.
- Be prompt and assertive in your collections efforts.
- Stop working for clients who are not paying.
- Use retainers or require partial payment up front.

A bleak outlook did not stop the nation's largest firms from raising their rates. Of the 109 firms that provided year-over-year data in response to the *National Law Journal*'s annual billing survey concluded Sept. 30, 2008, nearly 71 percent of firms had increased their average and median billing rates. Overall, partner and associate rates climbed by an average of 4.3 percent. Some firms have frozen all rates for 2009. Most firms are raising rates but by smaller percentages than in recent years:

- Selectively increase rates. Don't shut down all rate increases — that

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is not necessary — but thoughtfully review and adjust your rates, especially for new clients. The lawyers down the block are still charging for their work. Even while many clients are scrutinizing their bills and pushing back on rates, there will still be opportunities for selective rate increases.

It may be appropriate to reevaluate your client intake policies and relax your acceptance criteria for clients who are not able to pay standard billing rates. There is no easy answer here, and any rate concessions should be coupled with a higher percentage of money up front. Discounted work may be better than no work at all. Some firms will argue (correctly) that they should not relax their acceptance standards. This analysis is unique to each firm.

In a slowdown, sub-par financial management becomes more glaring and can really hurt a firm. If years of sloppy management in this area are catching up with you, call in a doctor:

- Pay a CPA to go over your books, then do what he or she tells you. Use someone who has worked with your firm or with other professional service firms.

Expenses

If your firm is struggling, consider "renting" services and leasing equipment, rather than buying, in order to reduce fixed expenses and increase flexibility.

- If your practice involves routine, repetitive work, can some of it be outsourced? Can you share paralegals? Rethink your work model and whether the work has to be done the way you are doing it now.
- Have you done your homework to make sure you are getting the best deals on your law library and other research subscriptions? Can some of your research work be outsourced on a pay-as-you-go basis?
- It may be possible and beneficial to outsource additional services such as accounting, payroll, facilities management and information technology.

What can be automated? Do you really need that receptionist? Can depositions be handled via teleconference? What about health savings accounts as an option for health insurance? The midyear bonuses and the holiday party obviously have to go, and schedule that retreat somewhere closer to home, but don't stop there. Do a thorough line-item review of all expenses.

Marketing

Without an adequate volume of work coming in, good financial management can only take a firm so far. Many firms will be tempted to curtail marketing spending.

Cutting back on marketing activities is not recommended during tough times. If anything, client retention and business development efforts become even more important in a difficult environment. It's like diet, sleep and exercise — it's best if you've already established good habits in these areas, but it is never a bad time to start, and the onset of symptoms makes good habits all the more urgent. Also note that many marketing activities do not cost a lot of money:

- Go talk to your clients. Spend face time with them and with your referral sources. Let them know how much you appreciate them. Ask clients about their plans and challenges. Be invested in their success.
- Develop focused marketing plans at the firm, practice group and individual levels, and implement the plans with discipline. If your firm has no experience doing this, a one- or two-day marketing strategy meeting can be helpful to establish rational business development goals for the coming year. We at Altman Weil are being asked to facilitate focused marketing retreats for firms of all shapes and sizes that are concerned about the slowdown and want to be aggressive and strategic about building their practices and keeping their firms together. An outside expert can help translate internal anxiety into external activity that benefits the firm.
- Upgrade that website. Clients identify new lawyers and law firms more through referrals and personal recommendations than through legal directories and law firm websites, but it is quite common for potential clients to check out a law firm's practices, lawyers, client list and industry focus by reviewing its website with their own needs in mind. Many small firms have paid little attention to the appearance, content and professionalism of their websites, and a surprising number of firms still have no website at all. Be clear

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"Cutting back on marketing activities is not recommended during tough times. If anything, client retention and business development efforts become even more important..."

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about your firm's competitive capabilities without exaggerating or overselling, and demonstrate clear understanding and knowledge of specific industries and businesses. We recommend not using a cookie-cutter template because that's exactly what it will look like, and that's not the image you want to project. Make it very clear how to contact the firm. Having a good website will encourage clients who are not sure whether to call you or who want more information before they do.

Emphasize excellent client service as a means of retaining and attracting clients. Return calls and e-mails the same day. Meet all deadlines. Keep clients informed. These little things are critically important. Ask your clients to define "service quality," and make sure you and your colleagues are consistently meeting or exceeding their expectations. Measure this by conducting periodic client surveys.

Many companies have instituted across-the-board expense reduction mandates that include legal expenses. Consider whether this tightening of legal spending presents an opportunity for your firm to poach clients who are looking for high-quality legal services staffed by partner-level talent, or by fewer lawyers, at lower overall rates.

If marketing and profit management do not bring sufficient results in terms of work and cash flow, then the firm will have to decide whether it must reduce expenses further by cutting staff, including lawyers. The old adage may be true that "you can't shrink your way to greatness," but make sure you have diligently cut expenses wherever possible, using outside help if needed.

Personnel

There are only so many areas in which law firms can constrain spending. As the largest component of the annual budget, payroll expenses must be evaluated, but personnel decisions are frequently more emotional and potentially more divisive than other budgetary considerations and can have significant long-term impact on the firm. Staffing decisions, even when driven by economics, also have strategic and cultural implications. Your firm's staffing should be proportionate to the workload and consistent with the firm's strategic goals. Consider the long-term implications but don't let emotion quash legitimate business decisions that need to be made.

Many workers will be willing to make sacrifices to improve the firm's bottom line if it means keeping their jobs. Alternatives to terminations include salary freezes or cuts, shorter work weeks, redeployment, encouraging sabbaticals and extending unpaid holiday breaks and vacations.

Compensation systems, cash-flow management and partners' capital investment might need to be adjusted or restructured during a cash crunch. These are complex areas that require particular analysis.

Getting the right administrators in place is a key to profitability in any firm, particularly smaller firms where by definition the impact on billable time taken away by administrative matters is high in proportion to the number of timekeepers. Firms of any size can benefit from turning over as much of the business management and administration as possible to one or more capable administrators. In our experience, if the administrative roles are structured correctly and you get the right people in those jobs, they will more than pay for themselves and will increase the profitability of the firm. The key is doing it right.

Finally, be open to opportunities to add good lawyers who are getting squeezed out of other firms due to those firms' profitability concerns or who are looking around because larger firms are not hiring.

Conclusion

No one knows for sure what 2009 will look like by year's end. During good times or bad, however, the time is always right to make prudent investments in the future of your firm's practices and to deploy your resources effectively.

We are seeing two main responses to economic uncertainty. Some firms are waiting to see what will happen, and others are trying to make things happen and maximize their own performance even in tough times. We recommend, in response to uncertainty, that firms dedicate the time to develop an overall strategy and a focused marketing plan through a facilitated partners' retreat.

The cyclical nature of the economy means that every down cycle turns into an up cycle. Firms that make good, common-sense business decisions and craft rational business plans during the down cycle will be well positioned to sustain their performance over the coming months and to take advantage of the better business climate that lies ahead. ◆

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OUR 35TH YEAR

Compensation Risk Assessment


James D. Cotterman

By James D. Cotterman

Law firms are facing a severely depressed economy, tight credit markets, skittish partners reluctant or unable to contribute capital, and price sensitive clients. They have responded with serial adjustments to their personnel ranks. Layoffs, furloughs, reduced hours, wage freezes and reductions have all been part of the arsenal. Non-personnel expense reductions continue to be sought, but the fiscal reality in professional services is that labor represents 78% of total costs and the essentially fixed cost of facilities is another 6%. There is only so much one can do to save money outside of personnel reductions. Now, firms must wrestle with pay decisions for those remaining.

When dollars are plentiful, it is easy to be generous to all and still satisfy the high producers; but when dollars are tight, internal equity and external competitiveness become increasingly difficult to achieve, especially when the high producers send subtle (and often not so subtle) messages about the inadequacy of their compensation. This is the true test of a firm's values and culture. Unfortunately, in challenging times, we all too often find that the bedrock of the firm's existence is compensation, while culture and values fall to the side. This is what we see too often in law firms in this current environment.

The compensation *status quo*, however, may be a dangerous option to pursue. If key business generators perceive their compensation to be inadequate, they may take their clients and leave; and highly talented, technically skilled lawyers may be picked out of the firm. The effect is a loss to the organization, a reduction in its ability to generate fees and profits, and a disruption in the lives and livelihoods of all stakeholders. Many firms intuitively understand the risks, but few have the ability to assess that risk in a systematic way.

Understanding Compensation Decisions

When Altman Weil advises law firms on compensation, we focus on the *quality of the compensation decisions*. The various types of systems and processes are simply tools to achieve good decisions. We examine a firm's program to determine if the compensation decisions demonstrate the

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following characteristics:

- they allocate remuneration proportionately to contribution (merit);
- they are competitive with comparable market decisions (external equity);
- they are determined consistently from person to person and year-to-year (internal equity);
- they reflect the firm's culture and operating philosophy;
- they demonstrate that what leaders say is important is really what is rewarded (credibility and trust); and,
- they recognize and reward those activities that implement the firm's strategy.

We test to see how well the firm's compensation decisions achieve these goals.

Correlation Studies

One set of tests are *correlation studies*. The purpose of a correlation study is to gain an understanding of what factors the compensation decision makers took into account in making their determinations. Each dot on the scatter graph below represents an individual partner.

A scatter graph visually assists in identifying what, if any, patterns exist between two variables. The more scatter or randomness that exists in the "picture," the lower the correlation between the variables. The *trend line* is another visual tool to help identify a pattern in the data. The more highly correlated the data, the tighter the fit between trend line and dots. Positively correlated data move in unison and in the same direction. Negatively correlated data move in unison, but in opposite directions.

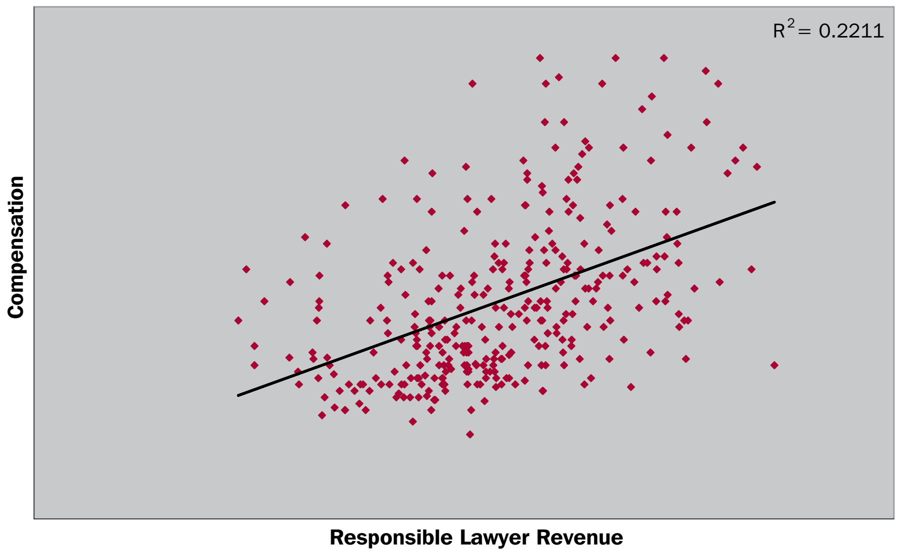
In the upper right corner of the graph is the R^2 value. This statistic quantifies the strength of the relationship between the variables. A value of zero means that there is no observable relationship between the variables. A value of 1 means the variables are highly correlated.

The example below looks at the correlation between compensation and responsible lawyer revenue. You can see that there is some pattern in the array of dots; some relationship between responsible lawyer revenue and compensation. But there is a fair amount of randomness as well. The R^2 value of .2211 is somewhat consistent with the strength of relationship we find in the legal profession between personal productivity and compensation. This scatter gram tells us that we can explain about 22% of the variability in pay by the variability in responsible lawyer revenue at this firm. It also tells us that 78% of the variability in pay is explained by some other factors. Additional variables are studied until a more complete picture emerges of what the compensation decision-makers did and did not take into account to make their decisions.

Multiple variables should be examined to aid an understanding of how much influence one variable has over another or the extent to which the decision-makers used a particular variable in a systemic way. It does not explain the process or rationale used to reach the decisions, or the decision for any individual partner — but it may point to areas of systemic inconsistency and highlight questions to pursue further.

Individual R^2 values (those values which are a shorthand for the strength of the relationship between compensation and various decision factors) cannot be added together to determine the combined effect that two variables have on another. There can be significant overlap between variables. For example, good business generators are almost always strong personal producers. Business generation tends to be highly correlated with partner compensation. Let's use .84 for example. The correlation of personal productivity to compensation is generally around .23. But the strength of the relationship of both personal production (.23) and business generation (.84) is not 1.07. In reality, it will more likely be .85 or .86 because the two variables overlap each other. To discern the relationship of two or more variables to compensation we use another statistical tool called *multiple regression*. Multiple regression removes the overlap to understand the combined influence of two or more variables without double counting.

Compensation vs. Responsible Lawyer Revenue



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Identifying these patterns helps us understand what is behind the decisions in order to determine if they are consistent with the firm's stated desires for its partner pay program. Is the decision process consistently and fairly applied? Does compensation reflect overall merit (a basic tenet of any well functioning pay program)? A systematic data analysis will reveal the answers.

Partner Productivity Analysis

A second set of tests are *analyses of partner productivity* (personal and business generation). Following are distribution tables that depict the proportion of partners performing at varying levels of personal productivity and business generation. This illustrates the nature and spread of economic performance and aids in our assessment of the firm's vulnerability to weak market conditions.

Such an examination might appear as follows:

An array of personal productivity: Table 1 depicts the number and percentage of partners whose personal productivity falls within various bands of expected performance. This table focuses on the most recent year's performance for working lawyer fee receipts as its metric.

Table 1. Personal Productivity

Under $400,000	49	36%
$400,000 to under $500,000	44	32%
$500,000 to under $600,000	20	15%
$600,000 to under $700,000	18	13%
$700,000 and over	6	4%
Sum of analysis	137	100%
Check total	137	100%

An array of business generation: Table 2 depicts the number and percentage of partners whose business generation falls within various bands of expected performance. This table focuses on fees received on the most recent year's performance with a lawyer's book of business as its metric.

Table 2. Business Generation

Under $300,000	47	35%
$300,000 to under $500,000	28	21%
$500,000 to under $750,000	28	21%
$750,000 to under $2,500,000	32	24%
$2,500,000 and over	1	1%
Sum of analysis	136	100%
Check total	136	100%

An array of the combination (personal productivity and business generation): Table 3 compares data underlying the prior tables to determine in stark terms the percentage of partners who generate work in excess of their personal production ("exporters"), those who "break even," and those who require support ("importers"). We can also see the distribution at varying levels of export and import. It shows data not only for the most recent year but also a multi-year average and a multi-year weighted average.

The firm's partners in this example have improved their ability to cover their personal production with more partners generating work in excess of what they themselves do ("exporters"). This is evident from the most recent year's data indicating 55% (i.e., 44% + 11%) are net exporters compared to the multi-year average of 52%. However, 38% (9% + 29%) of the partners still are not self-sufficient, a decided weakness in this economy.

Identifying individual exporters, those who only break even, and those who import work from their partners is critical to making rational compensation decisions. The next section outlines how to use this data.

Market Ranges

A third set of tests, *market range*, analyzes whether compensation decisions are within or outside a predicted range for each lawyer's economic performance. They also help us to understand the compensation decision in the context of the individual's ability to generate business. This is a very powerful tool, as it not only identifies the risks in incorrectly rewarding different levels of business generation, but it also places that in the external context of the compensation decisions relative to market. An example of that analysis is below.

Partners in a sample law firm have been categorized as Entrepreneurial Leader, Business Generating Partner, Self-Sufficient Partner, Service Partner, Below Service Partner, and Technical Specialist Partner. These terms were set forth and defined in the author's article, *Making the Grade: What Should Law Firm Ownership Really Mean?* (available at www.altmanweil.com). They are used to categorize a partner's ability to create revenue-producing business opportunities for the firm.

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Table 3. Personal Productivity and Business Generation

	Most Recent	Average	Weighted Average	Average of the three metrics
Significant exporters	44%	41%	42%	42%
Small exporters	11%	11%	9%	10%
Break even	7%	8%	8%	8%
Small importers	9%	12%	12%	11%
Significant importers	29%	28%	28%	29%
Sum of analysis	100%	100%	100%	100%

+/- $100,000 threshold between small and significant
+/- $20,000 threshold for breakeven

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In Table 4, the first row shows the actual number of partners in each category, while the second row shows the same values as percentages. The third and fourth rows indicate those partners who are compensated below the market range (row 3) and above the range (row 4). Numbers in red highlight general areas of concern.

Forty-six, or 34%, of this firm's partners have not demonstrated a sustained ability to generate revenue-producing business opportunities at a level sufficient to meet expectations of a service partner (they are those partners who were classified in the "Below Service Partner" column).

a heightened risk of losing important contributors in a firm where that skill set is not well dispersed among the ownership group.

There are also 26 individuals who are paid above their predicted range (row 4). Only two of them are significant business generators and 21 are not self-sufficient. Both of these scenarios are red flags for this law firm, indicating significant risk.

A word of caution. This tool highlights risk factors. It does not indicate that any particular decision was bad. It does allow the consultant and the firm to engage in a frank discussion of each specific

Table 4.

Comp. > Range	Comp. < Range	Entrepreneurial Leader	Business Generating Partner	Self-Sufficient Partner	Service Partner	Below Service Partner	Technical Specialist Partner
26	60	2	38	22	29	46	0
19%	44%	1%	28%	16%	21%	34%	0%
	60	1	18	14	10	17	0
26		0	2	3	3	18	0

Compounding this problem for the sample firm is an additional 21% of the partnership who are rated as "Service Partners." When combined, these two categories represent a full 55% of the partnership who are not self-sufficient revenue generators. These individuals require the support of others to keep busy. Having more then half of your owners in this situation is a sufficient challenge in good markets. To face this in a deteriorated market is a bit of a nightmare.

We can also see that 19 of the firm's 60 partners who are paid below their expected range (row 3) fall into the categories of Entrepreneurial Leader and Business Generating Partner, i.e., those partners who can drive business into the firm in a meaningful way. This represents case to determine its individual appropriateness and what, if any, action should be taken.

Armed with information like this, we can have an informed discussion about how a law firm's compensation committee is carrying out its charge. We can consider an array of changes that will improve decisions, as well as other changes to inoculate the firm against disruptive departures. Such changes are often quite complex to implement. As one partner so eloquently stated it, "You can't get turkeys to vote for Thanksgiving." Change will result in some people getting less, while others take more. The compensation changes could also coincide with changes in partner status or even separation. Instituting safeguards such as a compensation floor, collars to the amount of change in the first year or two, and transition assistance can protect individual lawyers from undue economic hardship. These are some of the hardest decisions leadership must make; but they are also some of the most important if a firm is to survive turbulent times. ◆

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