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# Partner Compensation: Transparency Doesn't Guarantee Happiness

**By Blane R. Prescott, of MesaFive, LLC**

A desire for transparency has become a common outcry across business and society and with good reason: Clarity about what is being done and why is an appealing concept that promotes fairness and honesty. In law firms there is a similar desire for transparency about leadership, management decisions, firm finances, strategy, and partner compensation.

On the surface transparency in compensation seems like a great idea. If the firm is doing a good job setting compensation shouldn't it be easy for everyone to understand why every partner is paid what they are paid? Oddly enough experience shows the answer is no. But why?

Short of using an open, mathematical formula to set compensation, the only way each partner can effectively understand all compensation decisions is for every partner to:

- Sit through and listen to every compensation discussion,
- Know everything the deciding body knows about every partner,
- Review every piece of data that was considered,
- Understand all the non-financial contributions of each partner,
- Be familiar with the firm's strategy and each partner's skills and role in implementing it, and,
- Treat all this information in a completely objective, unbiased manner, without anyone's ego becoming involved.

Given the list above it's obvious that it isn't practical to create perfect transparency unless a firm just uses an open, mathematical formula. So why not just use a formula? Suffice it to say that among **AmLaw 200** firms, there are now only a handful left that have true formula compensation systems, unlike 40 years ago when they were found in more than half of all firms. Unfortunately, formula compensation systems were a major factor in the declining health and profitability of law firms.

## It's About Predictability, Not Transparency

Experience shows that lawyer demands for more transparency are often red flags, indicating a lack of trust and confidence in a firm's systems, or leaders, or both. But if one looks at highly

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successful firms, it is predictability rather than transparency that produces true success and satisfaction.

Predictability means partners have a realistic idea of what the firm wants them to do, using their actual skills, and partners are not surprised by the firm's compensation decisions. Over time that predictability instills confidence and builds trust in the firm's system and leaders.

Yet, many firms fall far short of this goal. When asked most compensation committees revert to superficial, generic descriptions of performance that describe a hypothetical partner with perfect skills in every area. Most partners walk away from such a discussion with no better understanding of what they should do or how they will be paid than when they started.

A common example is demonstrated by advice to "develop more clients, because that will increase your compensation." This isn't helpful because only 10% to 15% of most firms' partners will ever consistently generate significant volumes of high quality, profitable clients. So, this advice has the same value as telling a basketball player "if you want to be better then you should grow taller."

## How to Create Predictability?

Predictability requires *at least* four elements:

1. The firm should know and understand each partner in-depth, including his/her unique strengths and how to use them. That means leaders should actually talk with partners, not just read a self-authored memo about them.
2. The firm should use each partner's unique strengths to advance the firm's strategy, (*e.g.*, if you are a great writer then you should write to develop clients, if you are terrible at doing pitch meetings then you shouldn't be doing pitch meetings, if you are an incredible mentor then you should be mentoring more than others, etc.). Unfortunately, one of the most common characteristics of less profitable firms is that they are lightly managed, meaning that they never tell anyone to do anything because they don't want to encroach on partner autonomy (even to the detriment of the firm and profits).
3. The firm should admit to a partner when he/she may have reached a *relative* compensation ceiling given his/her abilities and contributions.
4. Most importantly, the firm should focus as much time and effort on increasing overall profits thereby increasing the compensation for partners who have peaked in terms of their relative *share* of compensation. Interestingly, while most firms drone on about "a rising tide raises all ships," perhaps only 5% actively implement the concept.

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In many firms partners spend inordinate time competing with one another for compensation or client credit, and firms routinely rationalize that behavior by saying "there is no perfect compensation system." Conversely, a characteristic of highly successful firms is that partners put more emphasis on competing with *other* law firms and raising their firm's profits than competing with one another for a bigger share of stagnating profits. The good news? Changing a firm's focus isn't as nearly as difficult as most firms fear.

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