

Compensating the Rising Star

By James D. Cotterman

A young, dynamic partner is rapidly building a practice. She is active, visible and well connected in the market. She aggressively pursues business opportunities. She is known for her keen intellect, is highly respected, and her work is first rate. Clients regularly comment on her ability to seamlessly blend pragmatic legal and business advice that advances their agendas in very positive ways. Other firms have periodically made runs at her beginning around her mid to senior associate years, but she began her career at this firm and feels much attached to it.

She has come to you, the Compensation Committee Chair and a member of your firm's Executive Committee, to discuss her compensation. She is delighted to be the youngest associate invited to become a partner. She sees partnership as affirmation that hard work and loyalty to the firm will be rewarded. She has been happy in the past with her pay package and very upbeat about her future with the firm. But now she is conflicted because other firms are offering her substantial increases in pay to lure her away. Politically astute, she is not demanding or threatening. Rather, she is wrestling with the conflicts between her loyalty to "her" firm and her obligation to her family's economic future.

Not an unusual situation for a firm to be in. So what do you do? Here is a future leader of the firm being courted by other firms. She has never been greedy, but the dollars being offered would make anyone at least think about their situation. You do not want to lose her, but you understand the practical and political repercussions of simply matching offers.

INTERNAL & EXTERNAL CONSIDERATIONS

First take a look at the pay decisions you have made. Compensation decisions should be internally equitable based on relative merit using a broad range of factors, with solid economic contributions a fundamental necessity. Could you be more aggressive with her position relative to others and still be within what you believe are equitable allocations for all of the partners? If she does merit more and you are inclined to make an adjustment, where will it come from? You already distribute 100% of the profits. The specifics of your pay program will affect the difficulty in making an adjustment.

If you are okay on internal considerations, the next area to explore is external competitiveness. Does the market really value this person differently, or have the firm's financial results slipped relative to the firms you consider your peers? Remember that the market is dynamic. An individual's market value will fluctuate from time to time and from firm to firm. A firm with a critical gap to fill and few candidates to select from may be more aggressive and be willing to offer a premium, maybe even a substantial premium. It is probably not practical to bid against a premium offer, but if the market generally values your partner more, some adjustment may be warranted.

As Compensation Committee Chair, you are making a recommendation to adjust your colleague's pay higher, but within the merits of her contributions and market conditions and not outside your firm's philosophy or in competition with the current highest bidder. So you now have two problems, getting the internal approval and selling it to the young partner.

If the adjustment is clearly appropriate on its merits, the internal approval may be relatively straightforward. Adding that this will be funded out of a reserve fund, current year bonus pool or simply proportionately by all other partners may just get the job done. Your challenge is simplified by how well she has conducted herself and the very high level of esteem her colleagues have of her. If the recommendation is perceived as a stretch on its merits, however, the challenge can become much more difficult. Other partners may begin to advocate their own agendas. You are on a narrowing balance beam. Remaining upright and in good form is going to take some effort, determination and focus.

MAKING A BALANCED COUNTEROFFER

Once you've made a decision, the question is how to demonstrate to the young partner that this is a fair adjustment, considering all the factors? Some other considerations will come into play. Part of the Compensation Committee Chair's job is to help the partner realize that she is well paid internally and compared to the market, and that she is respected and valued by her colleagues.

First, is the grass truly greener? The competitor's large signing bonus, much larger draw, guaranteed bonus if certain performance thresholds are met and liberal relocation assistance package all sound alluring. But what does your partner know about the firm making that offer? How well will she fit into that culture? What will the other firm expect of its new hot-shot lawyer, and how quickly must she deliver? How big of a target would be on her back as a result of the generous package being offered by the competitor to lure her away? Will there be upside potential, or will the new firm seek to recover the premium in future years of stagnation? Careful due diligence of the other firms and even more thoughtful deliberation about the wisdom of changing firms is required.

Second, are there opportunities for the young partner to be more involved in your firm? This may be a good time to increase the investment in this young partner. Look for opportunities for her to be more involved in leadership roles. Are there committees or postings that might offer growth and tie the partner even closer to the firm? Encourage and assist her to pursue training in leadership and management concepts. There are many good leadership and management training programs in the market: from a single-day seminar such as Altman Weil's Law Firm Leadership Program to Harvard's week-long Leading Professional Service Firms to semester and longer curriculums at several graduate schools.

Does this young partner have a good mentor? If so, get that person in the loop. If not, consider finding someone to take this role. If there is no one at the firm who connects well with the partner in this way, then consider a coach. More and more coaching is becoming entrenched in law firms – there is fast growing acceptance of this concept as something to do for top performers and not just as a remedial intervention. The world's top athletes and musicians use coaches to improve what they do, and corporate leaders use coaches to improve their performance; clearly these are not remedial actions forced on underperformers.

Compensating the rising star is partly about money. But the best practices go beyond the pay dollar and extend to other factors that bind one to their careers and organizations. Being respected and valued are important considerations. So, too, are feeling part of the firm's future through the opportunities made available for career growth, experience, continuing education and leadership training.

James D. Cotterman is a principal of legal management consultancy, Altman Weil, Inc. He advises law firms on compensation, capital structure and other economic issues. Contact him at jdcotterman@altmanweil.com.

Copyright © 2016, Altman Weil, Inc., Newtown Square, PA. All rights for further publication or reproduction reserved.