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Encouraging Collaboration Through Partner Compensation

While most law firms have emphasized teamwork as a core value for many years, we see a renewed interest from firms in prioritizing collaboration. Heidi Gardner's recent research* on collaboration demonstrates many benefits to collaboration at both the firm and partner levels, including increased revenue and profitability among partners and practices that collaborate. Her research, consistent with the analysis we have done with our clients and with what you would expect, shows that the more practices and offices that serve a client, the higher the revenue received from that client. Matters that require multiple practices and partners tend to be more complex, and thus often more profitable for the firm. Partners who collaborate with other lawyers grow their business base more quickly than those who are more insular in their approach to practice. And importantly, when firms bring partners from different offices and practices together to solve client problems, clients are less likely to leave because replicating that team in another firm is difficult, resulting in stickier partners as well. Of course the potential downside of larger client relationships is increased buyer power and the potential for discounts, which we have certainly seen in our work, but the benefits of collaboration outweigh the negatives.

Collaboration is more than simply cross selling and collegiality. Cross selling typically involves sending work to another partner or office whereas collaboration requires partners to work together on matters to integrate their geographic and/or practice expertise to address sophisticated client issues. Collegiality, which is about camaraderie and trust among colleagues and working towards a common purpose, is a prerequisite for collaboration, but it is not, by itself, the same as collaboration.

Despite the many benefits of collaboration, firms continue to struggle to make real progress in changing behavior. While partners are not motivated to collaborate solely by compensation, and much of the reward of collaborative behavior goes beyond pure economics, we believe that aligning the firm's partner compensation approach is a critical aspect of success.

Remove Barriers to Collaboration

While some firms are on the search for the perfect collaboration metric, it's important to also understand how the metrics you already have in place might discourage collaboration. It is not uncommon for firms to talk about wanting partners to collaborate, yet reward partners for individual behavior, employing metrics and incentives that go specifically against the goal of increased collaboration. Some of these include:

- *Origination credit that is client based, unshareable, and with lifetime credit*. To the extent that this origination credit drives a meaningful portion of compensation, partners have every incentive to get their own clients rather than work with other partners to build firm clients. In firms like this we often see client relationships hit an upper limit well below the potential because partners are acting as solos rather than as a team.
- *Overemphasis on working attorney revenue*. Similar to individual partner profitability, an overemphasis on working attorney revenue encourages partners to bill hours rather than build relationships.
- *Measuring individual partner profitability* (based on his/her performance as a working timekeeper). Profitability is important but it is better to focus on the profitability of the work managed, not simply the profitability of the work a partner has done. Individual profitability tends to lead to a focus on billable hours and not on relationship management and business generation beyond what a partner needs to do to fill his/her own plate.

On a related note, some firms have chosen not to track origination credit at all, in order to encourage partners to work together without regard to who is getting credit for a matter or client.

If collaboration is truly a priority, then eliminating or de-emphasizing these, and similar metrics, will help align the incentives with the goals.

Encouraging Collaboration Through Compensation Process and Metrics

Of course it is best to actually encourage collaboration in addition to removing the barriers. There are a range of approaches that firms have put in place to measure and reward collaborative efforts and behavior. Some of these involve aspects of the compensation process, and some involve the development or modification of specific metrics.

In the process area some interesting approaches include:

- *Emphasizing collaboration in partner year end self-evaluations*. We increasingly see firms asking questions about collaboration around client relationship management, business development activities and other areas. Typically, the focus is on both collaboration offered and collaboration received so that others can be recognized.
- *Using Peer Review interviews to capture collaboration information*. For firms who conduct year end interviews, we see an increase in the amount of time devoted to discussion around collaborative efforts and team work. One particularly collaborative firm requires the Peer Review interviews to be only about other partners, which serves to increase collaborative behavior throughout the year.
- *Limiting distribution of data*. More firms are choosing not to distribute individual partner performance statistics to all partners. These firms still track the statistics, and use them in the compensation process, but reduce the peer pressure and internal competition that can sometimes be created by distributing statistics.
- *Using a bonus pool to specifically recognize collaboration*. A bonus pool, or portion of a pool, which is specifically aimed at rewarding partners for collaborative behavior can highlight the firm's commitment to encouraging and recognizing collaboration.

Of course what a firm measures tends to send a message about what the firm values. Metrics are often perceived to carry more weight than they actually do in compensation. It is therefore important to ensure that your metrics encourage collaboration, and/or you add specific collaboration metrics. Some of the approaches include:

- *Allowing shared originations*. Many firms track origination at the matter level rather than simply the client level, and allow sharing of origination among partners. This sharing of credit can encourage partners to collaborate on building client relationships. Credit sharing works best when there are guidelines and oversight to ensure that sharing is done consistently and accurately represents each partner's contribution to the relationship.
- *Tracking originations at the team level*. A variation on origination sharing, team originations allows originations to be credited to a full team rather than individual partners.
- *Measuring client management or collaboration credit*. Client management credit is a companion to origination credit and in some firms the partner who is receiving the origination credit may not also receive the client management credit. This encourages partners to collaborate with other lawyers since they are not required to 'give up' credit.
- *Tracking time on specific collaboration initiatives*. While most firms track non billable or investment time, some firms specifically track time on particular collaboration initiatives. These initiatives might include participation in pitches to target clients, time spent working with partners to make introductions, and other collaborative efforts. Identifying and recognizing these activities can encourage partners to invest in collaborative efforts that may not have an immediate payoff.

Compensation systems, incentives and metrics will not magically change personalities and behavior, but when combined with the right strategic priorities, communication, leading by example and other collaboration levers, they can help enhance collaboration in the firm.

* *Why it Pays to Collaborate* by Heidi Gardner, American Lawyer, March 2015.

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