fairfax
INSIGHTS

Incentivizing and Compensating Partners in Transition to Retirement

With demographic shifts reshaping law firm partnerships, many law firms today are struggling with the challenge of how to best reward and motivate partners in transition to retirement. Senior partners in law firms continue to represent a large percentage of the equity partner population, and often they are responsible for generating a disproportionate percentage of revenue and managing major client relationships. Identifying the right approach for how to harness the experience, network of contacts, and contributions of these individuals can be critical to a firm’s long-term success or even survival.

Unfortunately, there really are no simple answers to this complex question. In today’s environment, partners in transition represent a broad spectrum of contribution levels, and as a result, a single or uniform approach is unlikely to work. It is not uncommon to see firms with two partners with similar expected timeframes for transitioning out of the firm to retirement, but with radically different contribution levels and professional motivations. One may be highly engaged in growing the overall firm, generating substantial client revenue, personally productive and contributing to non-billable firm projects. Whereas, another partner of equal seniority may have a productive practice, but it may be entirely oriented around him/her with little potential for succession because he or she is not engaged in building the firm overall. While both partners may be operating with similar three to four-year time horizons towards retirement and both may have high production and origination statistics, the approach to rewarding and incentivizing these individuals to contribute in ways which most benefit the firm must be customized to reflect their individual situations and personal goals.

In the past, compensating retiring partners was far less complex. First and foremost, there were fewer of them, so these issues arose much less frequently. In addition, many firms tied compensation for partners in transition to a graduated reduction in contribution level. This meant that as partners entered a three to five-year window towards retirement, both their expected contribution level and their compensation would gradually transition down. This approach offered the benefit of supporting a more gradual transition, allowing both the firm and the partner to better manage the financial impact, while simultaneously allowing for implementation of a managed succession plan. In environments where partners operated under this shared expectation of a phased down approach to compensation and commitment level, this method worked well.

However, as firms have migrated towards a greater focus on individual metrics in setting compensation for all partners the dynamic has changed. This shift has impacted the thinking and behavior of senior partners, resulting in some push back on giving up client origination credit and the associated compensation. Even when offered the potential for a non-metrics driven bonus, some major rainmakers have resisted the idea that they would be expected to reduce their involvement in client work and relationships to allow for transition and to align with a graduated reduction in compensation. Other senior partners seem to be seeking to avoid the unavoidable reality of eventual retirement overall.

These partner reactions are likely driven by a simple desire to maximize compensation at the tail end of one’s career, or a desire to maintain influence and continue to be seen as a high value, major contributor in the partnership. While perhaps understandable, these self-serving and often sub-conscious desires can interfere with partnership transition and cause succession efforts to fail – while simultaneously, subjecting the firm to more risk, based on a heightened dependency on a growing population of senior rainmakers who may or may not be able to continue to contribute at high levels within a relatively short order.

The solution for firms dealing with these types of transition tensions lies in getting at the heart of an individual’s professional aspirations or sources of motivation, as well as his/her unique strengths and critical areas of contribution.

This requires that firms step back and work with partners to define:

1. What each partner as an individual needs to feel professionally satisfied
2. The highest value contributions that each partner offers based on his or her skill set
3. A rewards system and contribution expectation which aligns the two

This is no small feat. Identifying these individual goals, defining contributions, and measuring progress to align incentives in a fair and transparent way is a complex process.

As a first step, firms will need to shift away from a heavily metrics-driven performance monitoring and compensation approach for senior partners. This would be a major departure for firms who report and distribute a broad range of metrics on all partners monthly. It would also result in a separate compensation approach for senior partners, such that their compensation would be set with a different philosophy and criteria than other partners. For partners in transition, firms will need new metrics, which may include measuring actions and results taken based on succession plans, or rating the success of expanding or transitioning client relationships. Maintaining and reporting on origination and personal production metrics for senior partners (even if firms seek to tell these partners that their compensation is not dependent on them) will inhibit transition and succession efforts and in some cases, cause firms to fail to capture the true value that a particular senior partner may offer during his or her transition time period.

In addition, effectively aligning a senior partner's transition goals and contributions with a rewards system will require significant one-on-one dialogue, and learning about an individual partner's aspirations and contribution potential. Firms will be required to look behind known information about individual partner's past contributions to understand the nuances around their expertise, professional network, and client development skills which may require succession focus and offer potential for further revenue growth under a less conventional definition of partner contribution. Even further, it requires clear communication and follow up to maintain alignment in expectations and contributions after they are initially set.

Of course, these efforts must all be made early on – before retirement is imminent. This requires approaching partners by at least the age of 60 to 62 to conduct initial discussions of their plans and timeline for phase down or retirement. In most instances, firms find that three to five years is required to successfully transition major client relationships to a next generation partner(s). While firms will want to remain flexible in order to address individual partner plans and goals for retirement, a defined and consistent process will be important to help build confidence in the firm's fairness and avoid the potential for any age discrimination claims.

Senior partners in law firms operate as major contributors and the ability to effectively motivate and harness their contributions over the next five to 10 years will mean success or failure for some firms. Customizing rewards systems to align with high value senior partners' unique ambitions and professional strengths will be critical to success.

London

Principal: Giles Rubens
giles.rubens@fairfaxassociates.com
44 (0)20 3633 3943

Washington

Principal: Lisa Smith
lisa.smith@fairfaxassociates.com
202.365.4180

California

Principal: Kristin Stark
kristin.stark@fairfaxassociates.com
415.215.9294