Compensation and Cross-Selling

By James D. Cotterman

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Introduction

As a quick introduction and backdrop, let's review best practices in partner compensation. Altman Weil's approach to partner remuneration is based on research (ours and others). Our guidance focuses on the effectiveness of the compensation program – i.e., how well compensation decisions demonstrate:

1. Internal consistency – Pay Proportional to Performance®
2. Strategy linkage – Appropriate recognition of smart, informed risk-taking efforts and results
3. Cultural alignment – Supporting the firm's agreed-upon values and desired work environment
4. External competiveness – Effectively managing departure risk resulting from dissatisfaction over pay decisions

We also look at how well compensation decisions are communicated to the individual partner. It is essential that the decision-maker demonstrates that he/she has heard/read/considered all input; explains the decision—linking it to the input, strategy and culture; and discusses how the individual can improve next year. It is vital that the right people are in the room for that conversation.

Thus, compensation is best utilized as a tool that recognizes and proportionally rewards efforts and results that support the overall success of the firm. It is a high-touch process in most law firms, and appropriately so. It is the most tangible expression of what is valued, and therefore most important to that law firm. Compensation decisions have tremendous power to reinforce and strengthen leadership's credibility when done well, or to demoralize partners when done poorly.

Tracking and Rewarding Cross-Selling

Cross–selling is an attribute of true partnerships, as opposed to confederations of independent practitioners. It is a desirable part of a collaborative work environment and philosophy for serving clients.

Firms measure cross-selling activity in a variety of ways. One of the more interesting approaches I've seen was a "beneficiary/benefactor report" that presented a matrix of work provided from and to partners. Additional reports can be generated from firm databases to provide information on cross-selling among offices and practice areas.

Some firms may split the origination credit into components and track each separately. For example, Client Origination may become Procurement for the sales function—obtaining the initial instruction from the client. Proliferation may track matter origination—the development of new work by others for the existing client. Client Relationship credits may be used to recognize those individuals responsible for maintaining a client relationship or relationship within a segment of a client's business. And Client Management credits may recognize individuals responsible for managing all or a significant portion of the client's legal needs. When multiple credits are utilized they are typically weighted to avoid double counting and to recognize that each does not have equal value.

There are also ways to use one credit and assign portions (percentages) of it among those who are assisting the partner in managing and growing the client relationship. Note that we are not advocating splitting origination credits among partners who simply assist by doing work on a matter. Those efforts are adequately recognized in the working credits nearly all law firms already track.

But scorecards are not a necessity. At best, they serve as an aid or framework. What is really important is how the cross-selling activity enhances and expands the number of individuals who build relationships within the client organization while showcasing the scope and scale of the firm's capabilities to the benefit of the client.

We have used the words "efforts and results" and need to take a moment to reinforce the importance of recognizing efforts—even failed efforts. First, the competitive landscape has increased the length of sales cycle and clients have become more wary of being "sold" even within existing relationships. It takes time to introduce and build trust between new team members and the client organization. Therefore, efforts to expand a relationship through cross-selling are taking more time, possibly more than a compensation cycle. Second, if your firm's strategy is worth anything it requires partners to stretch and take some risks. Cross-selling activities are very likely to be a part of that 'stretch.' Such activities are excellent growth and learning opportunities. It is important that the compensation decisions recognize this. Clearly results carry more weight than efforts, but failing to recognize smart cross-selling efforts will take a toll on long term investment to the detriment of what the firm is hoping to achieve.

About the author:
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 Mr. Cotterman at jdcotterman@altmanweil.com.