

Is your compensation strategy helping you build the firm that you want to be?

The creation of a compensation structure is amongst the most important strategic decisions that a firm's leadership will make. At a firm's outset, it appears to be about what people in your firm will get paid. Once you've worked inside any organization for a while, however, you learn that the compensation system shapes the values of the organization and the behaviors for which employees are either rewarded or penalized. Compensation strategy has a profound effect on your corporate culture and the morale of your employees.

The values of a new organization are not always immediately apparent, and inevitably change over time. It is important for the firm leadership to explore their shared values before a compensation system can be established, and apply them during the process. For start-up organizations, bringing in business is a critical goal in order to ensure success for the firm. Accordingly, many newer firms heavily emphasize rainmaking in their compensation structure. However, rainmaking is only one component of a successful practice, and as a result other behaviors, such as pleasing clients and expanding relationships, deserve reward. This is often achieved by setting up a discretionary bonus system – usually a percentage of the revenue associated with a client – to reward employees who meaningfully contribute to these other objectives. Over time, it might make sense for the commission rate to be changed or reduced to reflect changes in the firm's objectives. For example, people in sales-focused organizations often tell stories about the salesperson that brought in the big fish early in their career and lived off of that relationship forever. These sorts of arrangements can undermine a culture of teamwork or fail to incentivize your employees to continue to contribute to the values of the firm.

Firms would be smart to consider rewarding behaviors that are less directly related to the bottom line. In a growing firm, employees who bring team members who can serve the business well are making a meaningful contribution to firm's objectives; rewarding this behavior is advisable. Similarly, employees who acting as ambassadors of the firm – through speaking on panels, joining appropriate industry organizations and committees, writing articles or otherwise, should receive additional remuneration. Often this is best achieved by putting aside a pool of money during the year that is distributed at the discretion of the leadership at year's end. The other members of the firm should be aware of who received money and for what behaviors, so that there is no mystery about what the firm values and to demonstrate that the leadership is indeed putting its money where its mouth is.

It is critical that firm leadership set up a compensation structure that rewards its values. The values of the firm should be communicated up front so that all employees understand and sign on to the system. This is also a good way to weed out people who aren't a good fit for your organization – if they don't like the compensation system, it is likely because they don't (or can't) support its values. It is also crucial that the compensation system be reviewed over time to ensure that the system is still in line with the potentially changing values of the firm. While other reward systems will also be important in establishing firm culture, a well designed compensation structure will do a lot to drive the right behaviors and help you build and sustain a strong business.

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