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Solving the law firm compensation conundrum

By Tamara Philabaum

People are a law firm's most valuable assets. From the mail room clerk to managing attorney, everyone you hire plays a key role in delivering quality legal services and generating revenue. Let's face it, people work to earn a living. Yet, most law firms have not taken the time to define how they will reward their employees financially. Asking potential new hires for their salary requirements or offering the minimum possible to get someone in the door is not a sustainable plan. Likewise, waiting for an employee to give notice before offering a well-deserved pay increase will result in the loss of good employees to other firms.

As a law firm management advisor, I have observed that owners often struggle with how much to offer new employees. Frequently, they admit to just pulling a number out of the air. Similarly, they often do not have a consistent method for awarding pay increases or paying bonuses. This leads to a lot of confusion and frustration for employees which, in turn, can cause disengagement and turnover. According to the Society for Human Resource Management, it costs an average of 6-9 months of an employee's salary to recruit and hire a replacement. By establishing and following a compensation plan, you can avoid being caught off guard and losing valuable employees due to compensation shortfalls.

Even smaller firms should have a compensation policy, an established wage structure, and a consistent method of communicating them to employees. A compensation policy defines your firm's philosophy and the corresponding strategies for paying employees at all levels of the organization. The wage structure specifies the pay range for each job within the firm and is used to establish external equity. Additionally, consistently communicating the compensation system as well as individual wage and benefit values to employees will help them feel informed and appreciated.

Before crafting a compensation plan, you must define your compensation philosophy, which is a written statement that outlines the goals of your total rewards program. Your philosophy should guide wage and benefit decisions by expressing the organization's mission and values. The compensation philosophy will dictate the position that the organization seeks to achieve within the targeted employee market.



Tamara Philabaum

The natural extension of your compensation philosophy is your compensation strategy. While the philosophy documents the "why" behind how your organization's approach to compensation, the strategy delineates "how" you bring your philosophy to life. The basic strategies of a compensation policy should address the following:

1. Establishing and maintaining the wage structure that includes a list of positions within your firm and the corresponding minimum, midpoint, and maximum pay rates
2. Determining new hire wages
3. Granting individual employee wage adjustments such as cost of living and merit

4. Explaining bonus and incentive pay programs

Establishing a wage structure starts with identifying source data for establishing wage ranges. The policy should indicate what surveys will be used. I recommend up to three different sources. A midpoint is established by averaging the mid points from each survey. Then a range is established from the midpoint. Once the ranges are established, you can determine if any adjustments are needed to establish external equity for your employees.

For new hires, the starting wage is commonly defined as the minimum of the range plus some adjustment for each year of additional experience beyond the minimum requirement. The minimum required should be set forth in the job description for the position. Your compensation strategy may also allow for additional considerations for certifications or skills beyond those required for the job.

Annual wage adjustments normally happen during the employee's anniversary month or at a designated time each year. Cost of living (COLA) and merit are two of the most common strategies for wage adjustment. COLA may be based on the CPI change year-to-year. Merit pay is a methodology used to reward employees for good performance. All these tactics should be clearly specified in your policy.

Many firms seek to promote from within but are unsure of how to adjust an employee's pay when doing so. For example, promoting an administrative assistant into a paralegal position would warrant an increase in pay. Your compensation policy should define how wage adjustments are calculated when a change in position occurs.

Incentive pay is an additional strategy for providing monetary rewards to employees. Don't just make these up as

you go along. Take the time to do the math and determine what makes sense so you do not erode the firm's profitability. Not all positions can or should include incentive pay, which must be based on measurable metrics such as billable hours, revenue generated, or clients onboarded. Once established, incentive plans should remain consistent over a defined period.

Bonuses, on the other hand, can be given for anything from reaching a revenue goal, completing a project, or achieving a certain client satisfaction score. The compensation policy should indicate that bonuses are at the discretion of firm management. Even so, note that once bonuses are granted, employees do come to expect them.

Finally, your plan should include how to communicate the firm's compensation strategy to employees. Doing so will provide clarity on how their wages will be determined. It is also a good idea to distribute an annual wage and benefit value statement to your employees to make them aware of not only their wage but also the value of the benefits they receive such as paid time off, retirement plan contributions, and insurance premiums. ■

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