

Top 3 Methods to Determine Compensation of Law Partners

Appropriate compensation is vitally important to any professional organization, but this is especially true in the hierarchical environment of a law firm. Determining the appropriate compensation of law partners can prove challenging, as administrators seek to create a system that accurately reflects the profits of the firm, but also takes into consideration the contributions of each partner and a sense of fairness that promotes morale within the firm.

When developing a compensation plan, firm managers need to evaluate the availability of funds for distribution, as well as the general environment of the firm. Expectations of the individual partners should also factor into choosing the best direction. The best plans account for each partner's contribution to revenue generation, but also look towards the strategic growth of the firm as a whole.

When creating a plan for the compensation of law partners, firms should consider the options:

1- Base pay

Base pay with performance bonuses differ from traditional base pay plans. Instead of paying out all profits to partner salaries, firms limit payment to about 75%, which allows for additional bonuses when partners reach certain milestones. Work incentives relate compensation to the amount of time each partner invests into the firm's overall growth. This promotes an environment where partners consistently contribute to the work of the firm instead of resting on their positions. Legal billing software is vital to this type of plan because it allows tracking of work hours for individual partners, which takes the

guess work out of determining whether incentives have been adequately reached.

2- Commission

Commission based plans use preset factors to weigh each partner's contributions to the firm. Firms can accurately measure the work production of each partner with a comprehensive legal billing system. Commonly used options are:

- Commissions based on fees collected from time worked. The attorney's portion of all fees collected for a specified period are used to determine the amount of commission earned.
- Commissions for the Project Lead, based on fees collected for a specific project. Each project can have a lead, or responsible professional, assigned who is in charge of managing the project and ensuring its successful completion. The system can calculate a percentage of all fees collected pertaining to the project they are responsible for.
- Commissions based on fees collected from time worked by staff supervised by a Manager. When a senior staff person supervises employees, that supervisor can also earn a portion of the fees collected. Commissions can be award based on the fees collected from any staff they directly supervise.

3- Profit

Profit based compensation plans pay partners based on the firm's profits earned after all overhead and associate salaries are deducted. This option is least used because it is based on distribution based on previous year-end results and cannot be easily implemented as part of monthly compensation.

Combination

Most firms use a combination of two or more methods to best meet the specific needs of the individual firm. For example, a commission may be combined on top of base pay.

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