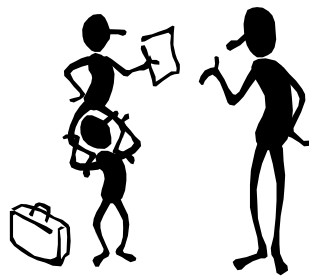


## 'LOCK-STEP' IS NOT DEAD

or even wounded

(Nov/Dec 05)



The way partners are remunerated continues to be debated – usually privately. Unfortunately the most vocal group in the debate are those that seem to think they are worth more if they deliver more dollars in fees.

Before commenting on this it is worth looking at lock-step and agreeing how it works. The best description I have heard is, "It is a fixed length, constant speed income escalator." In practice lock step involves dividing partnership profit into 'points' and allocating them in a predetermined way. For example, some firms may decide that entry into partnership may command 8 points, which increase by one point per year until 20 are received. We have helped some firms successfully introduced a reduction in points after milestone birthdays are reached. This has done wonders for succession planning, but I digress....

Where lock step goes wrong is when someone feels he (it is nearly always a 'he') deserves a larger share because he brings in more dollars and either wants a bonus related to that 'extra' income or additional points. Many firms have buckled to these claims and introduced various derivatives of the 'eat what you kill' philosophy. The result, especially when more than 15% of income becomes 'discretionary', is weaker partnerships with higher client and partner attrition rates. The message always used to be that a partnership is an understanding whereby profits are shared for the good of all partners irrespective of whether A is doing more valuable work than B. It has always been understood that some work carries a premium – for example company law specialists are usually able to charge more for their time than equity and succession specialists in the same firm. Whether this makes one individual worth more is a 'moot' point especially as some high value work can be conditional on accepting low volume process driven matters as well. Problems can arise when macro economic circumstances change and work that used to be 'sexy' becomes of lower value and where clients come to one practice precisely because they can get **all** their legal services needs met in one place.

When eat what you kill policies are introduced the whole basis of partnership is undermined and practice values get subverted. The value of the whole partnership should be greater than the sum of its parts. When this ceases problems arise and partnerships become a collection of sole practitioners. If lock step can be made to work for multi-jurisdictional partners (with only minor tweaking) it should work here. Squabbles over personal income are demeaning and indicative that clients are of secondary importance.

If your firm has concerns over income distribution call our office. We have years of experience successfully advising partnerships how best to structure their remuneration systems. Don't let rainmakers dictate your profit distribution system and take solace in the fact most of them have a short 'shelf life'.