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PARTNER REMUNERATION

Workshop report prepared by Frances Nash, Ralli Solicitors LLP

Developing a partner reward strategy – to build competitive strategy

Peter Scott discussed the approach firms should take when considering how their Partner Rewards strategies should reflect and achieve the best results whilst building a competitive advantage.

Is your reward system holding you back from achieving your objectives? Sometimes the answer is yes but many feel they cannot do anything about it. It is very difficult to implement a new strategy and it can be very emotional.

For professional firms in the future, achieving high performance will matter as never before if they are to provide clients with what they require, be competitive and exploit market opportunities. To do this, firms need to focus on how to get the best performance from their people, helping people to maximise their potential.

How skilled are law firms at getting the best from their people?

To build a competitive advantage over your rivals requires a constant delivery of what clients require. The true test of a firm is satisfied clients. If client satisfaction is valued that should determine what it takes to succeed at the firm. Success will depend on the ability to attract, retain and develop 'key people' who are outstanding. Will what is valued be rewarded, and how? If not there are serious issues. There is a well known saying, 'what gets rewarded

will get repeated'.

If a firm is unable to offer competitive rewards it risks losing its best people and it will be unable to recruit the best. If you cannot offer those rewards then you are at risk.

Competitive rewards are personal

Important considerations for Partners include the reputation or profile of a firm, a defined vision and strategy, culture, money, career, quality of work and clients, relative worth and feeling valued. A study of why partners leave firms reveals that as many people leave for financial reasons as other reasons. There are a whole host of reasons which indicates that other types of reward are just as important as financial rewards.

A common sentiment is 'I am not being paid what I am worth' or 'I am worth more than he is'. Firms should never underestimate the importance of feeling valued, a sentiment which is not always wholly financially driven. Consider relative worth. The challenge is how to determine the relative contribution of each partner with respect to other partners. The difference in earnings does not have to be huge to cause an issue, rather the mere fact that there is a difference.

What should a reward system aim to achieve?

It should be aligned with a firm's strategic goals. If you are trying to create

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a culture of performance to build up competitive advantage over rivals, your reward structure needs to reflect that. It should provide rewards which recognise each individual's worth and encourages the development of new skills within the firm. If necessary, give incentives to promote that development.

To achieve a change like this is very difficult because you are dealing with overcoming cultural hurdles. It will take time, courage, vision and leadership. The hurdles are often not put up by the weaker partners but the strong partners. Why? Because they do not ever want to be judged by anyone and they are happy with the plateau.

Partner Reward – which system?

There is no such thing as a perfect system. One that works well for one firm may be a disaster for another. A system should be a 'living thing' to meet the changing needs of the firm. You must continually ask if the system you have is working the way you need it to. Many systems will undergo minor refinements from time to time.

The lockstep can work but it only works if everyone on a plateau pulls their weight. Not everyone is equal and contribute to the firm in different ways. Many firms stick with the traditional lockstep and there are all kinds of variants to the systems, e.g. gateway lock steps, descending steps.

The lockstep system can deprive you of the power to drive performance. If, for example, there is an under performing partner, what options did you have? Not much, either salary or out the door. There is a lack of flexibility in the system; it is a very rigid structure. There are also possible age discrimination issues.

Performance based rewards are not necessarily about greed. If what you

need to achieve for the firm is to keep people then you need to deal with people differently. A performance-based reward system enables you to determine the relative contribution of each partner with respect to other partners. There is a strong emphasis on merit and performance (but not only financial performance). If you do all the right things the numbers will look after themselves, no compensation system can make up for a lack of profits.

A performance based system should ideally differentiate between higher and average performers, not address under-performers. You should set a minimum standard, if your Partners are not achieving that standard then you need to deal with it another way.

Elements of a performance-based system:

1. Establish individual partner goals and plans.
2. Attempts to move partners to strengths and away from weaknesses.
3. Emphasis on 'a rising tide lifts all boats'.

It should be a stable system, sustain performance or lack thereof over years and have large amounts between levels. It has to be worth doing.

How do you measure performance?

Performance criteria should be designed to advance a firm's goals: developing people, developing client service, managing and enhancing a firm's reputation, developing market share and profitability. A well known U.S firm says that the most important factor in their evaluations of Partner performance was the response to this question; 'which partner/partners passed you most work last year?' The people that pass the most work are the highest earners in that firm.

Could you conceive of a Partner who does nothing but just brings work in?

Appraisals / Performance development reviews

How effective is your partner appraisal system? Is it just a formalised chat once a year? Some systems are more effective than others and it depends on the individual. Appraisals need to be part of an ongoing performance management process. They should aim to provide each partner with an agreed and actionable performance development plan and form the basis for performance based reward.

360 Degree Appraisal

A 360 degree appraisal involves feedback from those you report to and feedback from your peers and also from staff who report to you to provide an all-round perspective of performance. 360 degree feedback is more constructive, is more effective to enhance performance or change behaviours and is better received than downward feedback alone.

You should not impose change on partners, they must fully support the process if they are to take feedback to heart and change as a result. The process must not be seen as threatening. There is no single best way to do it. It must be a process which the partners are willing to commit to and understand. Trust in those managing it is essential.

Transition from one system to another....

It is very difficult. Advice is to go slowly and minimise the changes in the first year. Above all communicate.

A final thought...

Sanctions, are they necessary? Do they work? Human nature is such that if they don't have to do something they won't do it.