Managing performance-related reward for partners

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Practice Management analysis: What are the hallmarks of a well put together, performance-related reward system? Peter Scott, principal of Peter Scott Consulting and former managing partner of Evershed's London and European offices, looks at the latest trends in performance-related pay schemes for partners.

What are currently the most usual forms of determining partner remuneration? How do people generally feel about these methods now?

There are two basic reward models in partnerships and limited liability partnerships (LLPs):

- traditional lockstep
- modified lockstep

A traditional lockstep is where advancement and reward are based on seniority and a partner climbs a 'lockstep' over five to 15 years and then remains on a plateau where profits are shared equally, possibly until retirement.

Capital contributions are likely to be contributed in line with the share of reward as a partner climbs the lockstep.

A modified lockstep model, in comparison, involves elements of performance as criteria for advancement and reward.

However, the above are only very broad categories and they can encompass many variants--indeed there are said to be 'as many reward systems as there are law firms'. However, there is no such thing as a 'perfect system'.

Traditional lockstep is said by some firms which retain it to encourage 'collegiality', although the experience of many firms does not appear to support this view, particularly when there may be less money in the pot to share.

Possibly the only advantage of this model is that it is easy to administer as no decisions have to be made. The model does however have several disadvantages, including:

- unlikely to 'fairly' match reward to contribution
- may not measure 'relative worth' between partners
- may be inflexible and not capable of responding to the strategic needs of a firm
- may demotivate and disincentivise the best performers

If ever firms hear partners saying 'I am not being paid what I am worth' then that should be a danger signal because firms should never underestimate the need for partners to feel they are 'valued'. Otherwise firms risk losing their outstanding performers and may also be unable to recruit the best.

Also a reward system should aim to determine the relative contribution of each partner with respect to other partners. Accordingly, if a firm hears a partner say 'I am worth more that he is' that may likewise be a danger signal which a firm will need to take heed of.

How widespread is the use of performance-related reward schemes for partners in firms now and is the situation changing at all?

While many firms, particularly smaller firms, continue to retain lockstep and parity, there has--for the reasons mentioned above--been a trend for a number of years of firms moving away from lockstep with parity to reward systems which incorporate a number of performance elements for advancement up the lockstep and as a basis for reward.

Above all, reward tends to be driven by market considerations, because if a firm is unable to offer competitive rewards in its market then it will risk losing its outstanding people and will be unable to recruit the best.

Currently, this trend seems to be accelerating as the competition between firms for talent becomes more intense and performance becomes all important as firms strive to gain a competitive advantage over their rivals.

What are the usual characteristics of the schemes and what criteria are usually used?

A well designed performance-related reward system should ideally:

- be aligned with and help to advance achievement of a firm's strategic goals
- have a strong emphasis on merit and performance across a broad range of criteria
- determine the relative contribution of each partner with respect to other partners
- differentiate between high and average performers - underperformers should be dealt with separately
- help to build a firm's competitive position in the talent market
- help to create a culture of high performance and sharing within a firm to gain a competitive advantage over rivals
- encourage the development of new skills, experience, capabilities and motivation within a firm

Developing a range of performance criteria designed to enhance a firm's competitive edge is fundamental to implementing an effective performance-related reward system. Examples of areas covered by performance criteria may include:

- developing and maintaining profitable client relationships
- financial management, eg enhancing profitability and cash flow, but not just personal billings
- being an effective business developer
- managing people, including staff, colleagues, oneself and projects
- internal sharing and co-selling
- relationships with colleagues
- enhancing technical abilities, skills and other personal attributes
- other criteria designed to help the firm achieve its goals

Such criteria should never be foisted on partners, but instead partners should be involved in determining criteria to define performance as they will then feel that they 'own' the process.

How should a performance-based reward system be best managed?

Central to the success of performance-based reward are the requirements that:

- performance needs to be accurately and objectively measured
- the process of awarding performance-based reward is done in a way which is transparent and builds trust and confidence in the system

Arguably the most effective and objective way to measure performance in a partnership is to use a form of 360 degree or all round feedback, whereby colleagues provide their confidential feedback across the range of criteria being used to define performance.

Performance development reviews using such feedback can then be used not only as part of a firm's ongoing performance management programme, but can then be integrated into a reward system. In this way each partner can be provided with an agreed and actionable performance development plan which can also be used to form the basis of assessment for performance-based reward.

It is also essential that partners have trust and confidence in the persons who are managing the process.

What are the advantages and the pitfalls of performance-related reward systems?

As well as the advantages I've outlined above, there can be pitfalls too. Those commonly seen may include:

- what works well in one firm may be a disaster in another firm
- an arithmetical approach resulting in some form of point score--I would not recommend this as no performance measurement using a number of criteria of the type referred to above can be that accurate
- having inappropriate and poorly-managed feedback and award processes

Criteria should be broad-based to advance the goals of a firm rather than only rewarding personal billing, which tends to develop 'silo' cultures which work against sharing of work and clients resulting in no co-selling and less effective business development

The system should be designed to reward exceptional performance--not to deal with underperformance. Do not try to hurry the process, and communicate effectively with partners to allay any fears they may have.

Interviewed by Diana Bentley.

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