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Managing partner performance and reward

As competition between law firms for the best talent becomes more intense with firms striving to achieve high performance to gain a competitive edge over their rivals, the manner in which firms manage their partner performance and reward becomes all – important.

Partner reward tends to be driven by market considerations, because as work levels pick up firms which are unable to offer competitive rewards in their markets

- risk losing their outstanding people; and
- are unable to recruit the best.

For these reasons it is vital that firms should regularly review the way they reward their partners' performance to reassess whether their current reward arrangements are assisting them in achieving their objectives.

The effect of the market – driven imperatives to firms to both outperform their rivals and to offer more competitive rewards to their outstanding people has over a number of years pushed many (particularly larger) firms to move away from traditional lockstep, where advancement and reward are based on seniority and where a partner climbs a 'lockstep' over a number of years and then remains on a plateau where profits are shared equally, often until retirement.

In place of traditional lockstep, firms have implemented *performance related* reward systems, often called 'modified lockstep' which aim to enhance a firm's competitive edge. The trend away from traditional lockstep to performance related reward is now accelerating sharply and some of the reasons contributing to this are that traditional lockstep is now recognised to have a number of shortcomings, including

- *not fairly* matching reward to contribution;
- not measuring *relative worth* between partners;
- being inflexible and not capable of responding to the strategic needs of a firm; and
- demotivating and disincentivising the best performers.

On the other hand, performance related reward systems tend to

- 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;
- help to differentiate between high and average performers (underperformers should be dealt with separately and outside a reward system); and
- can more fairly match reward to contribution.

Those firms which have implemented ***well designed*** performance related reward systems and are ***managing them well*** have found that this form of reward structure can benefit a firm in a number of important ways by

- helping to enhance a firm’s competitive position in the talent market;
- creating a culture of high performance;
- encouraging the sharing of work and clients within a firm;
- promoting greater motivation and the development of new skills, experience and capabilities; and
- overall advancing the achievement of a firm’s strategic goals

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To achieve such potential benefits from a performance management and reward system, a law firm must ensure that its people know

- in which key areas their performance will be measured,
- their performance goals;
- how their performance rates against these goals; and
- how their performance will be rewarded.

The development of broadly - based ***performance criteria*** designed to advance the agreed goals of a firm and to enhance its competitive edge is a fundamental prerequisite for implementing an effective performance related reward system. Examples of areas of performance for such defining criteria will often include –

- Being an effective business developer
- Developing and maintaining profitable client relationships
- Financial management (particularly enhancing profitability and cash flow, but not just based on personal billings)
- Managing people (including staff, colleagues and oneself)
- Internal sharing of work and clients and co - selling
- Maintaining relationships with colleagues
- Enhancing technical abilities, skills and other personal attributes
- Management and leadership
- Managing special projects
- Other criteria designed to help a firm achieve its agreed objectives

Partners should always be involved in deciding the criteria to define performance because they will then feel that they 'own' the reward system and give it their whole-hearted support.

Also central to the success of a performance based reward system are the requirements that

- An individual's or a team's performance can be accurately and objectively ***measured***; and
- the process of making ***awards*** related to achieving performance goals is managed in a way which is transparent and builds trust and confidence in the system and in the people who are managing the process.

Arguably one of the most effective and objective ways to measure performance in a firm is to use some form of *360 degree or all – round feedback* whereby colleagues provide their ***confidential*** feedback on each other across the range of criteria being used to define performance.

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

However, there is a caveat to moving to a performance based reward system, namely that such a move is unlikely to achieve its objectives if a firm is not making sufficient profits to enable it to both pay higher rewards to its outstanding performers and at the same time not penalise its average performers by reducing their remuneration to unacceptably low levels. If there is insufficient profit, then a ***profit improvement plan*** should be implemented in parallel with a new way to reward partners.

If the partners in a firm have any doubts as to whether their existing method of sharing profit is fairly matching their reward to their contributions or is helping their firm to achieve its strategic objectives, then as a first step, they should consider how those arrangements might need to be changed. If outstanding performers have already been or are likely to be lost to a firm or the firm cannot recruit because of its current reward arrangements, then such review is likely to be overdue and urgent.