PETER SCOTT CONSULTING

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Reward is market driven

To successfully compete, a law firm has to outperform its rivals in the ways required by its clients, and that standard of performance is an accumulation of all the skills, experience, capability and motivation of its people. To achieve this, a law firm must ensure that it has access to highly trained, skilled and motivated people who are high achievers who will need to know in which key areas their performance will be measured, their performance goals and how their performance rates against these goals. This will require active management.

At the same time, all a firm's systems, structures and support processes will need to be directed to improving people's performance and the firm's competitiveness, including reward and progression within the firm. Unfortunately, reward systems too often seem to lag behind market changes, meaning that firms need to play 'catch – up'. This is the prospect now facing those firms which have continued with outmoded reward systems which are now proving to be no longer fit for the purposes of fairly matching reward to contribution, improving performance and building competitiveness.

Where should a firm begin if considering changing how it rewards its partners?

Competitive rewards can be very 'personal' in that some partners are likely to be motivated by quite different things to other partners, and rewards are not always limited to financial reward. For example some of the factors in the following list may persuade a high achieving lawyer to move from their current firm to join a competitor –

- The reputation of a firm and its profile in the market
- The firm having a clearly defined vision and strategy
- The extent to which a firm is seen to be dealing with underperforming partners
- The quality of work and clients
- The 'culture' of a firm, which will need to be focused on creating an environment where the needs, ambitions and aspirations of its people are viewed as important as those of the clients
- The extent to which a firm is prepared to invest in its people, training and technology to develop a high performance culture.

On the other hand, direct financial reward is for some, equally or even more important. In particular, law firms should never underestimate the damage that can be caused if partners perceive that their contribution is not being valued and fairly rewarded.

Relative reward between partners can in particular be a cause of discontent if a partner thinks he or she is worth more than another partner but this not being reflected in terms of their relative rewards.

Review your existing reward system

Is your reward system currently helping your firm to achieve its objectives?

Possibly the most common form of allocating reward is still lockstep, which in its simplest form means that each partner, on the basis of seniority after a period of years often linked to increasing capital contributions, reaches a ‘plateau’, where there is equality until retirement, That can work well -

- If every partner is ‘pulling his or her weight’ and contributing (in the broad sense) equally so no one partner should feel he or she is ‘worth’ more than any other partner. However, without performance criteria and standards as a basis for assessment these arrangements in many firms are increasingly being questioned as to their effectiveness.

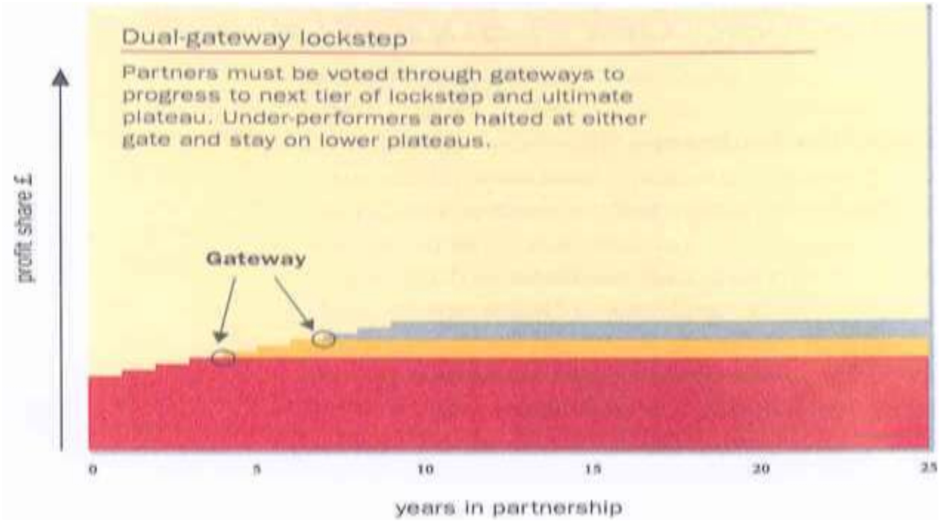
- If the profitability of a firm is sufficiently high to enable it to competitively reward every partner on the lockstep and plateau. However, falling profitability has meant that there is mounting pressure within firms (particularly from the outstanding performers) to move away from this type of arrangement.

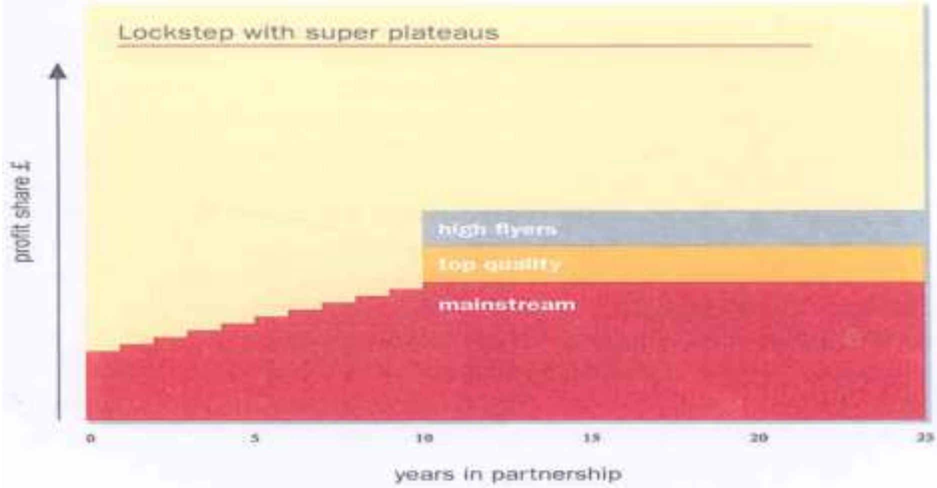
- It is often said that a simple lockstep such as this builds ‘collegiality’ within a firm with an absence of arguments about money. However, at what cost in terms of fairness, performance and competitiveness?

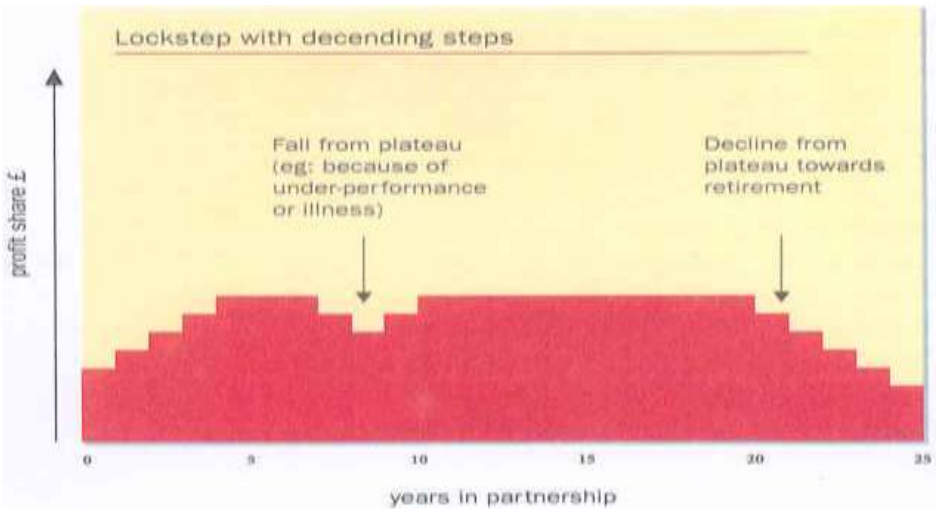
- Perhaps the one remaining advantage it has is that it is relatively easy to manage. It requires very little effort and no difficult decisions require to be made.

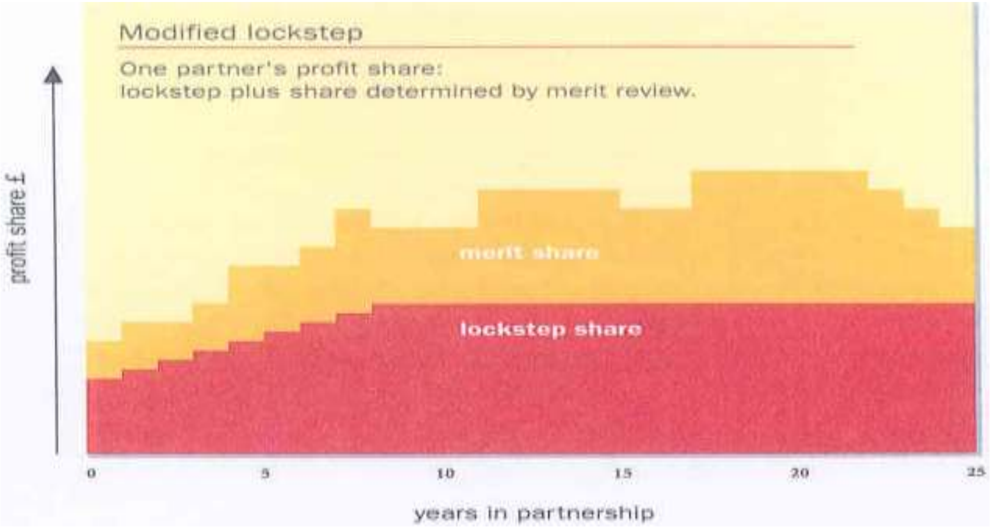
However, a lockstep system of this simple kind can be too rigid in its application – for example, what options does it provide for dealing with the under-performing partner? Partners do not usually make equal contributions; there will always be those who for whatever reason contribute (or consider they contribute) more or in different ways than others - and that is when stresses and strains in this type of reward system begin to show and when partners begin to ask themselves whether an alternative should be found, usually involving an element of performance – based reward.

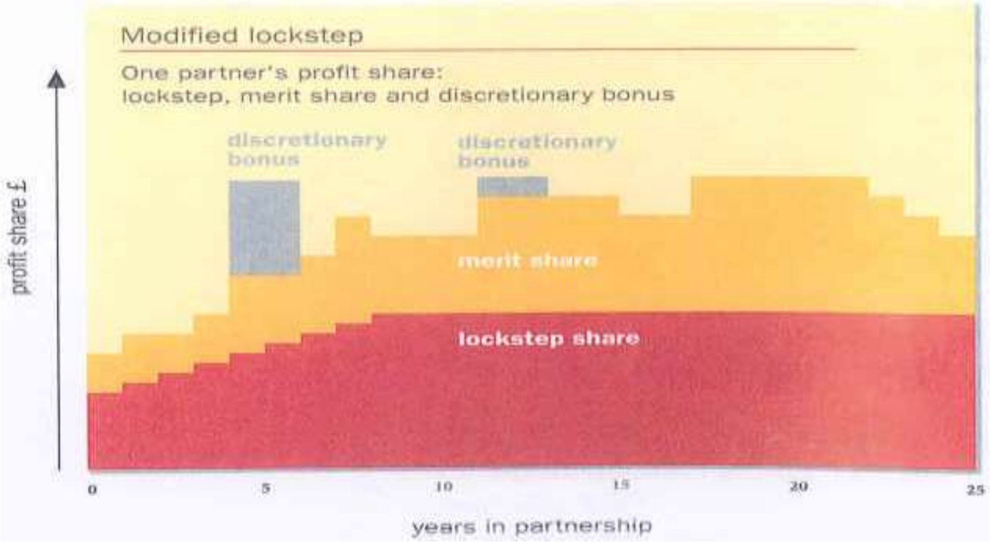
As a result, law firms have over the years developed variants which are often referred to as ‘modified lockstep’, involving elements both of seniority and merit, depending upon the objectives a firm is seeking to achieve from time to time. Here are just a few examples –


Dual-gateway lockstep
Partners must be voted through gateways to progress to next tier of lockstep and ultimate plateau. Under-performers are halted at either gate and stay on lower plateaus.
Gateway
profit share £
0
5
10
15
20
25
years in partnership


Lockstep with super plateaus
high flyers
top quality
mainstream
profit share £
0
5
10
15
20
25
years in partnership


Lockstep with decending steps
Fall from plateau (eg: because of under-performance or illness)
Decline from plateau towards retirement
profit share £
0
5
10
15
20
25
years in partnership





If a firm is considering a move to performance - based reward or is thinking of changing its current performance - based reward system, then the objectives of doing so will need to be carefully thought through. Ideally such changes should -

- Have a strong emphasis on areas of performance which are consistent with and advance the strategic goals of the firm

- Help to maintain the firm's competitive positioning in the partner recruitment and retention market

- Determine the relative contribution of each partner with respect to other partners, by differentiating rewards for high performers from those of average performers. If problems exist with underperformers, then that problem should be addressed outside the reward system.

- Establish individual partner goals and aim to move partners towards their strengths and away from their weaknesses

- Reward sustained performance over a period

- Provide for relatively large differentials between levels and between top and bottom

Performance criteria

Performance criteria are fundamental to developing an effective reward system and should ideally cover both activities that are an investment in longer term competitiveness and short term profitability, and can relate to individual performance as well as group performance, depending upon a firm's objectives.

When a firm agrees criteria by which performance is to be measured, this is usually the result of the partners having identified behaviours which they value as core to the way in which they wish to build their firm and its competitive positioning. Because they value such behaviour, then they are prepared to reward that behaviour. It is important that partners are closely involved in establishing the criteria to define 'high performance', rather than having the criteria by which their performance will be measured, forced on them. In this way partners will feel that they own the process and are more likely to work to make it a success. Further, a 'transparent' reward system will not only help to build partner confidence in the reward process, but also clearly show future partners what will be required of them.

If partners in a firm have any doubts as to whether their existing method of reward is helping their firm to achieve its objectives, or regard it as a hindrance to progress, then it should be incumbent on them, as a first step, to at least consider how those arrangements might need to be changed. If outstanding performers are already being lost to a firm or a firm cannot recruit because of current reward arrangements, then such review is likely to be overdue and urgent.