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, capabilities, 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,
how their performance rates against these goals and crucially how their performance will be *rewarded*. This will require active management if a firm is to outperform its rivals.

At the same time, all of a firm's systems, structures, and support processes will need to be directed to improving peoples' 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 purpose* in the face of increasingly aggressive poaching by rivals using reward as a main tool to do so.

It is also important to have a performance system that not only rewards financial achievement (a short term and essential component) but also the longer-term value creators, such as People, Clients and Leadership. This can be put in place through a "Balanced Scorecard" which will drive partner progression first into equity and then up the bands.

If a firm is unable to offer competitive rewards in its market, then it will risk losing its best people and be unable to recruit the best. How can a law firm both attract and retain key partners who are outstanding performers and who will be instrumental in building a firm's future success?

What will a firm need to do to deliver ***what those partners require***?

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. Identifying these matters can help firms to develop people retention and recruitment strategies to satisfy their lawyers' aspirations for interesting and rewarding careers. 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 or to remain with their current firm –

- 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;
- Development of the partner

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 be a driver of unhappiness if one partner thinks he or she is worth more than another partner but this not being reflected in terms of their relative rewards. Lawyers stand out in professional services in finding this aspect of reward important.

However, absolute reward is also important to many partners and in every legal market there is a threshold level of average partner profitability which will need to be achieved or exceeded if the best partners are to be recruited and retained by a firm. A firm whose profitability is below that level risks losing its best people to more profitable firms and will be unable to offer competitive financial rewards to recruit the best in the market. A good example is the continued recruitment of partners to UK law firms in London throughout lockdown.

Is your reward system currently helping or hindering your firm in achieving its competitive objectives? If so, then review your existing reward system. This should be tailored to your firm's specific needs, culture and aspirations. It may include reviewing partner performance against financial targets, values, how their people are developed, new clients, leadership, or leading of important initiatives for the firm's future- each firm is different.

If a firm is considering a move to a more performance - based reward model 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 and culture 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 activities that are an investment in both longer term competitiveness and short-term profitability, and drive innovation and client satisfaction to advance a firm's competitive goals. These 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 over the longer term.

Because they value such behaviour, then they are prepared to reward that behaviour. And as is so often the case for sub-optimal behaviour, you get the culture you tolerate.

It is important that partners are deeply 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. The following quote from David Maister illustrates this -

"Those who contribute the most to the overall success of the office are the most highly rewarded. Notice that this does not suggest what the pay scheme should be. The determining factor is just whether the people think it rewards the right people"

Is your reward system rewarding the right people, and is it working for you to build your competitive edge over your rivals - or is it holding you back?

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 or levels of profitability, then such review is likely to be overdue and urgent.