✽ The going rate?

Create the Perfect Partner Remuneration Structure

When it comes to Partner remuneration, beauty is in the eye of the beholder.

Law firms the world over have long wrestled with the ‘remuneration problem’ – how best to link Partner reward to business performance.

This is no simple task, as evidenced by the array of approaches currently in use - from Eat What you Kill, to Lockstep, to Modified Lockstep, to All Equal pay structures, and so on.

The truth is all of these structures have their benefits and limitations - there isn’t a single, ‘best’ solution. Indeed, when it comes to Partner remuneration, beauty is very much in the eye of the beholder.

The right answer depends on the firm, and finding it starts with a simple two-part question - “What culture and behaviours are we trying to create, encourage and cement, and how can we use remuneration to help shape them?”

To start with let us consider the structures most commonly in use today, and some of the key behaviours they tend to promote.

Lockstep is arguably the oldest – a traditional remuneration structure that recognises tenure and experience rather than fees.

As a result, it fosters fantastic retention rates – which is clearly desirable in its own right. Where it falls down, however, is in failing to incentivise Senior Partners at the top of the equity to work any harder.

Why wouldn't they sit back and reap the benefits from their previous hard work and let the new Partners take up the slack like they did before?

Clearly some Partners don't take their feet off the gas in this way, but the risk remains that they will simply move into a role where they can wind down and suck profit out of the firm until they retire.

This can become culturally toxic.

On the one hand, younger Partners may see that 'easy life' as an opportunity for the future. On the other, tenure is becoming less important and fewer people want to work for one firm for life.

As a result, the danger is that younger Partners will see these Senior Partners as sucking out profit – affecting their own pay - and up sticks for what they feel is a fairer pay structure.

At the other end of the spectrum is the Eat What You Kill structure, in which Partners live and die according to their own billings.

Firms employing this structure are often hugely profitable and offer great opportunities for Partners to earn astronomical sums of money.

Behaviourally and culturally, however, it also brings risk, potentially breeding the most extreme version of the siloed mentality that a lot of lawyers fall into.

After all, if you are solely remunerated based on what you bill, why would you bother cross-referring work to others?

Naturally, the focus is going to be on billing your own clients more and finding more clients for yourself.

So, the benefits of profitability must be measured against the potential downsides that come with a splintered partnership base, which can hinder firms in other areas - potentially closing the door on wider client opportunities in the future.

The half way house between Lockstep and Eat What You Kill - and today's on-trend pay structure - is the Modified Lockstep.

Some would say this is the best of both worlds and in some ways they're right. The Modified Lockstep rewards Partners both for tenure and for performance. It has played a vital role in helping the Magic Circle firms to combat the influx of US firms, preventing them from exploiting remuneration disparities to cherry-pick their top performers.

So, yes, this structure has a lot of benefits. It is, however, not all upsides. A move to Modified Lockstep is also is fraught with risk from a cultural perspective.

What happens when you take a firm that has always rewarded in one way and then completely turn that on its head in order to look after the few? Creating so called "Super Partners" is likely to cause resentment and can lead to a divided culture.

There is clearly logic in blending Lockstep and Eat What You Kill – a logic based on taking the best of both worlds.

However, they are essentially conflicting structures, so combining them is a delicate balancing act – got wrong, it can offer the worst of two worlds from a cultural perspective.

In terms of encouraging desirable behaviours and a positive culture, an All Equal partnership is arguably the best bet.

At first glance, that seems counter-intuitive and this is probably why the model is rarely used these days. The common lament is "Why should someone who is billing half of what someone else is be paid the same?"

There is, however, much more to it that that – indeed, that slightly narrow view might hint at the origins of some of the cultural and management issues within law firms.

That is, if all Partners receive the same distribution of profits then there is no reason to act in any way other than for the benefit of the firm, the clients and the partnership.

Those who are strong at business development can focus on that, those who are strong at minding the work can focus there and those who have an interest or natural disposition towards management and leadership can focus their efforts there without fear of financial retribution.

This is the kind of environment from which collaborative behaviours and cultures naturally spring.

There is, however, so much focus on billable hours that the most important things are sometimes missed - building a strong, sustainable firm with a clear strategy, winning and retaining key clients, representing the client's best interests and building the kind of culture that attracts and retains the best.

If all of these things happen and everyone is working to one common goal then you will have a very successful firm – one where profits look after themselves today and the future is just as bright.

The right balance

Some might argue that there should be no need to use remuneration as a lever for Partner and wider firm culture. But there is no getting away from the fact that money plays an important motivational role.

Lawyers have traditionally worked in silos and developed a mentality of running their own business relatively independently from their colleagues. So how do you create a cohesive culture that brings everyone together under a common goal without incentivising them?

This is something that law firm management has grappled with for years - with various degrees of success. In truth, it would be a surprise to find any firm that felt it had genuinely got this right.

Possibly, this is because a lot of firms take the wrong approach from the beginning, focusing on what is going to attract and retain top Partners and ignoring the rest of the firm.

Yes these individuals are important, but sustainable, long term success has to be about driving performance right through the business, not just the very top.

Start with a clear strategy that Partners can get behind.

Getting it right is complex; there is no doubt about that. Every firm is different in terms of strategy, people, markets, clients and so on, so each remuneration scheme will reflect these subtleties.

The key is to first understand what you are trying to achieve both strategically and culturally and then, based on that, align those imperatives with the most relevant pay structure.

One of the vital elements here is to start with a clear and engaging strategy that Partners can buy into and get behind.

If they are bought into the vision and see themselves as a key component of making that vision a success, they will naturally exercise the right behaviours and act in a manner that is in the best interests of the firm and not just the individual.

Once a firm has worked out what it stands for and what it wants to achieve it is far more obvious what sort of remuneration structure will suit.

Yes there may be some short-term pain as Partners adjust to a new remuneration model – but the long-term gains are potentially significant. Get remuneration right and you create the foundations for a more cohesive and ultimately more successful firm.

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