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KermaPartners

TAG Alliances Fall 2013 Conference

Partner Performance and Remuneration: Encouraging Partners to Compete Together

Michael Roch  
Munich: 22 October 2013

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Transforming the Remuneration System of an Independent Firm (1/2)

Case Study: An individualistic partner remuneration system was holding back this independent law firm.

**Our Client's Status Quo**

- Self-understanding: "modified lock-step"; partners positioned in 10 point increments across 100-400 point scale.
- Actual system as applied: 92% of a partner's pay related to his/her individual billings; an "eat what you kill" meritocracy!
- Beyond billings, partners were expected to contribute across 27(!) performance areas
- Neither business planning nor contribution planning and assessment process - "management" happened once a year - by providing points awards up or down
- Remuneration committee decisions subject to both appeal and partner vote

**Our Client's Challenges (Selected)**

- Lack of collaboration among partners for new client development and growing wallet share of existing clients - slipping against domestic peers and international competition
- Practice leaders at best did not "lead" - and at worst abused their "position" (fee earner - manager conflict)
- Partners paid lip-service to strategic diversity effort
- Know-how being hoarded; at same time too many generalists - wrong work in the wrong place
- Partners did not understand reasons for small point differences among "peers"
- Senior lawyers not delegating down
- "Nothing to lose" points appeals

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### Partner Remuneration as an Integrated Part of Related Elements

The principal elements of a partnership's ethos are closely inter-linked.

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### Culture: Partnership's Owner-Manager-Producer Self-Concept

The traditions, strategy and value framework of the partners determine the roles of individual partners.

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### Elements of a Remuneration System

Three principal elements need to align for an effective partner remuneration system.

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## Reward Structure: Fundamental Partner Reward Structures

Each PSF will have its own variant of one of 9 partner reward structures. Subjectivity is more difficult to manage, but helps avoid manipulation.

Individualistic	Degree of Centralisation							Egalitarian
	Cost-Sharing	Formula-based/EWYK	Financial Meritocracy with Non-financial Elements	Multi-Factor (BSC) Meritocracy	True Hybrid	Corporate style	Modified / Managed Lock-step	

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## KermaPartners PSF Intellectual Capital Model: A Starting Point

What counts v what should count: In the most successful PSFs, partners collaborate and invest time across a range of issues that go beyond recording billable time.

Drivers	Strategy	Relational Capital	Service Platform	Talent	Partnership	Finances
Means to Execute	Proposition	Clients	Service Lines/ Work Types	Partners	Governance	Capital Budget
	Geography	Referral Sources	Pricing	Managers / C-Suite	Incentives / Remuneration	Working Capital
	Alliances / Relationship Firms	Brand / Reputation	Service Delivery Processes	Fee Earners	Culture & Values	Profitability

How does your Firm value, for example, contributions to TAGLaw international clients?

"Origination" – sales – is necessary for the Firm to thrive – but many firms struggle assessing a shared effort by those partners who build the Firm's "Relational Capital".

Especially in formula-heavy systems, partners are usually rewarded based on financial production or other financial outputs – often undervaluing long-term investments / the "right" behavior.

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## 3 Common Difficulties

How Does Your Firm's Remuneration System Address these Common Themes?

### 3 Common Difficulties

- Assumes just getting the remuneration system "right" will cause partners to behave / contribute the "right" way
- "Loose" business planning at team / partner level – against a strategy that is even more "loose"
- No matter what contributions agreed, in the end what counts is a partner's supervised billings / billable hours / originations

### 3 Ways to Address

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## Transforming the Remuneration System of an Independent Firm (2/2)

Case Study – Results: An evolved partner remuneration and incentive system helped transform this law firm's performance.

### Our intervention

- Established a clear merit-based tier structure across 7 bands (with clear differences)
- Established 6 broad areas of partner contribution
- One contribution areas included major "pillar" for giving away work to other partners and for supporting diversity drive
- Established business planning and partner contribution management process in line with these contribution areas
- Established balanced assessment guidelines
- Removed the partner vote and right to appeal for a cleaner decision-making process

### This Law Firm Today

- Partners focusing on what they are good at - seeking to "give away" work they don't want to / can't do
- Partners actively seeking out working with "diversity" candidates
- Senior partners' delegation / moving to relationship management too early to tell
- Firm achieved alliance with Top Tier International Firm
- Best financial year in firm's history

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## About KermaPartners

The only international consulting firm focused on helping PSFs achieve their goals worldwide.

### Our clients

#### Legal Services:

- Multi-office law firms (Global 100, UK Top 100, USA AmLaw 100 & 200)
- Leading national and regional law firms in Europe, Asia, Latin America and Africa
- 14 of our clients are law firms that are no. 1 in their jurisdiction by market share or standing
- We also serve accounting firms, real estate advisors, private banks, consulting engineers, "the creatives" and other complex partnerships

### Our Firm

- 6 principals, each a global expert in his field with at least 15 years' experience
- 30 consultants and growing; all focused on the professional services sector
- Fully integrated internationally across London, Madrid, Miami, Milan, Munich, Zurich, Hong Kong, Singapore, New York, Miami and Mexico City.
- Dedicated service delivery systems that allow us to work for clients anywhere in the world irrespective of our locations

### Our service lines to the PSF sector worldwide

- Strategy development and implementation
- Partner remuneration and partnership structures
- Client relations and brand strategy
- Talent strategy and organizational culture
- Business performance and change management

### Our focus on added value

- We invest in our client relationships up front to fully understand – and often help shape – your objectives in working with us.
- We develop and apply analytical methodologies that are second to none in the professional services sector.
- We adapt our PSF experience to your firm's culture and partner buy-in requirements to achieve sustained change – and a sustained ROI.
- We work on a fixed fee or retainer basis to provide you certainty of cost and scope.
- We offer our unconditional satisfaction guarantee.

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## KermaPartners

Management consultants to the professional services sector worldwide.

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**Session of Your Choice – 1:30 p.m.**

Option #1: Making the most of Directory and Ranking Opportunities for the Independent Law Firm  
*Maximilian Ballroom*

Option #2: Tax-Efficient Investments During the Financial Crisis  
*Marshall Suite*

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