Partner Contribution & Reward Survey 2017

Current trends in partner contribution and compensation management for professional services and advisory firms.

1. Introduction

This report on partner contribution and reward is the result of a detailed survey into how partner contribution is assessed and managed, and how professional services firms structure and determine partner compensation.

Report insights are from the perspective of those managing the contribution process: managing partners, CEOs, HRDs and others in leadership roles.

The survey, conducted by Managing Partners' Forum, Performance Leader and Internal Consulting Group, comes at an important time for professional firms for two reasons.

Firstly, the current debate being played out about employee performance management applies to partners too. Our key findings show that the same needs that are driving changes for employees (agility, flexibility, more frequent feedback) apply equally to partners.

Secondly, many firms face an uncertain future due to fee pressures, increased competition and disruptive technologies. In this climate, retaining high performing partners is vital, and the contribution and reward system is a critical tool for building the stability and success of the partnership.

This report sets out our key findings in relation to the three key processes associated with contribution and reward management:

- the firm's overall ownership and reward structure;
- how partner contribution is managed; and
- how these contributions tie to decisions on partner pay and profit shares.

FIGURE 1:
THE PERFORMANCE TO REWARD TRILOGY

1

OWNERSHIP & REWARD STRUCTURE

The firm's overall approach to partner remuneration and financial mechanisms to:

- Award bonuses and other contribution-related rewards
- Share profits
- Award equity/points and move up/down the equity
- Become a partner and leave as a partner

2

ACCOUNTABILITY & CONTRIBUTION (Performance Management)

Processes the firm uses to, e.g.:

- Assess each partner's potential to contribute
- Agree with each partner what that partner will contribute to the partnership's business
- Interact about that partner's actual contribution
- Assess what that partner has actually contributed to partnership results for development and reward purposes

3

GOVERNANCE & DECISION-MAKING (linking Contribution to Reward Outcomes)

The firm's overall approach to partner remuneration and financial mechanisms to:

- Award bonuses and other contribution-related rewards
- Share profits
- Award equity/points and move up/down the equity
- Mechanics of reward decisions
- Efficacy of how reward decisions are reached
- Transparency and communication in relation to remuneration-related decisions.

2. Ownership and Reward Structure

A firm's ownership and reward structure drives its overall approach to partner remuneration. The ownership and reward structure says much about what a firm values and how that firm is responding to the dynamics of its operating environment.

Key findings from the survey:

Most firms operate meritocracies
More than two thirds of our respondents used some type of meritocratic reward structure. The most popular meritocracy is a "multifactor meritocracy" (30% of respondent firms) where reward is based on number of defined financial and non-financial performance areas. Pure locksteps (progression based on years of experience) are applied less and less across the PSF sector.

Egalitarian compensation spread for equity partners
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Bonus pools are popular
Nearly half of our respondents (49%) operate a bonus pool to reward extraordinary performance. A bonus pool may be a helpful tool to nuance total reward, especially where longer-term equity points don't provide a balanced and fair result. This is especially true if a partner delivers an exceptional, one-off year across all merit categories.

Mixed remuneration outcomes
Respondents are only partly satisfied with the remuneration outcomes at their firms. Respondents deem remuneration outcomes to be fair in substance, yet far fewer believe that these outcomes are perceived to be fair by their partners. The biggest single negative when it comes to remuneration outcomes is how poor performance is addressed. The role of ongoing performance conversations (discussed below) to reduce remuneration decision 'surprises' is central to addressing this dissatisfaction.

FIGURE 2:
REWARD STRUCTURE / REMUNERATION MODEL

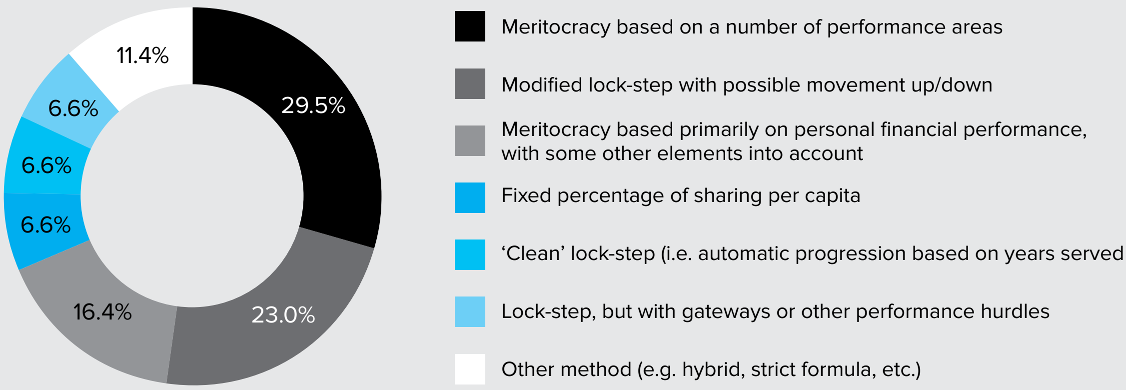
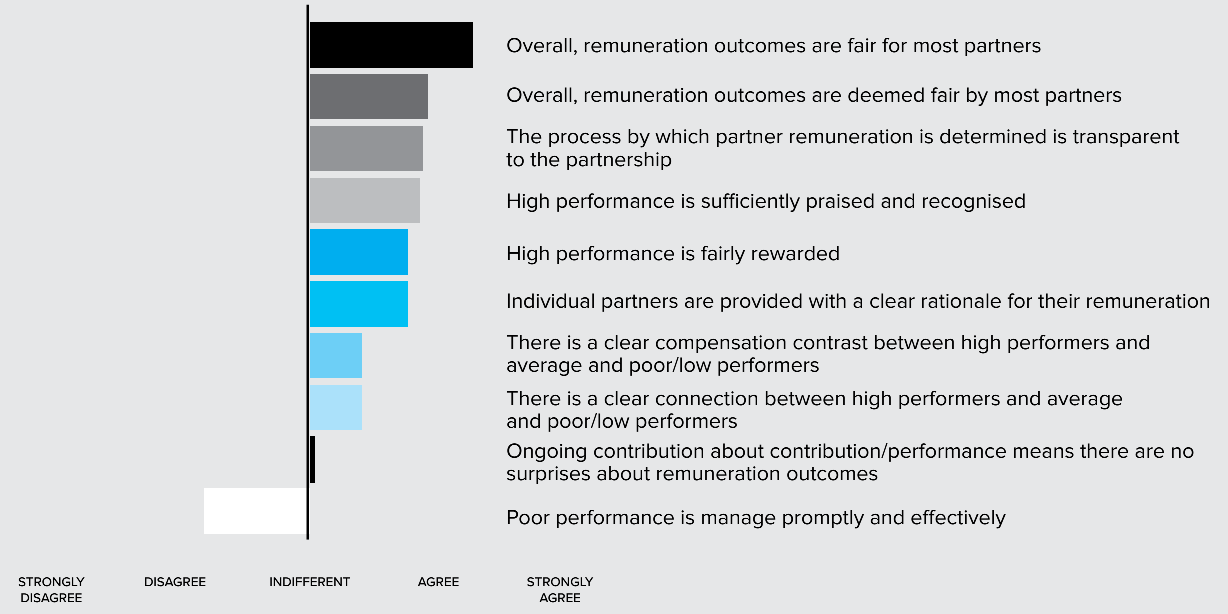


FIGURE 3:
REWARD OUTCOMES



3. Contribution Management

Contribution management refers to the processes used by firms to:

- decide what each partner should contribute to the firm;
- determine how that contribution is assessed; and
- resolve how gaps between expectation and actual delivery are addressed.

We use the term "contribution management" in this report due to the negative stigma associated with "performance management" in many cultures.

Key findings from the survey:

Poor performance is not being addressed
The majority of respondents say that the formal review process does not address poor performance (see Figure 4). This was the least well fulfilled aim of the review process, by some margin. Such a failure may impact perceptions of fairness and transparency. Unresolved performance issues can be frustrating for high performing and distressing for the partner who is struggling.

Effective contribution is recognised
There is positive feedback for those who conduct formal reviews, with respondents agreeing that formal reviews provide a fair assessment of a partner's performance, recognise and praise partner strengths and provide effective input for partner remuneration decisions (see Figure 4).

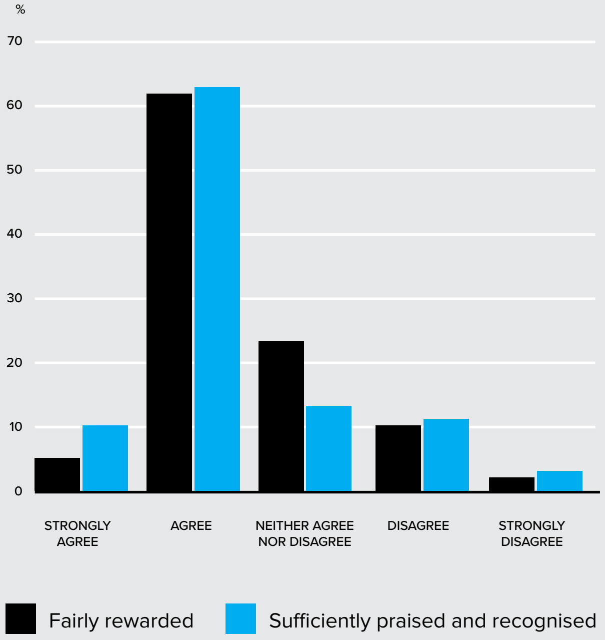
Reviews lack future focus
Establishing a partner's business plan and supporting partners to deliver on objectives are the least well fulfilled aspects of the formal review process (after addressing poor performance). Those designing formal reviews must attain balance between past and future, given the importance of agreeing contribution in advance. This finding also highlights the complementary role played by ongoing conversations that allow firms to align objectives and support collaboration.

Performance metrics
Contribution assessment remains too narrowly constructed around personal financial results. Qualitative feedback from our respondents indicates a desire to broaden the range of inputs and metrics (for example, client and team feedback). Respondents also want flexibility; to move away from a one-size-fits-all approach. A more flexible model would allow partners to play to strengths and be properly recognised for specialist roles such as Client Relationship Partner, or for the model to more closely reflect a partner's position on the partner life-cycle.

Frequency of conversations
Outside the annual review more frequent conversations are wanted; the preference being monthly (42% of respondents) followed by weekly (25%) and quarterly (20%) (see Figure 5). Practical ways to accommodate this desire include enlisting greater support from Practice Group Heads (PGHs) to undertake more frequent conversations and utilising technology to make regular conversations easier.

FIGURE 4:
CONTRASTING STORIES: DEALING WITH HIGH PERFORMANCE VERSUS POOR PERFORMANCE

High performance is rewarded, praised



Poor performance is managed promptly, effectively

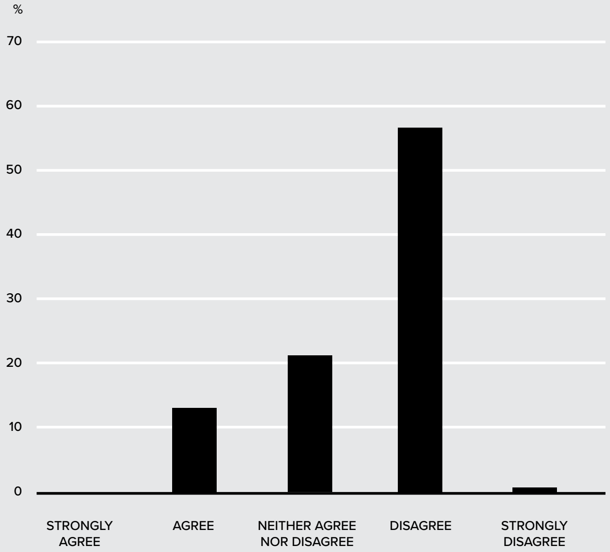
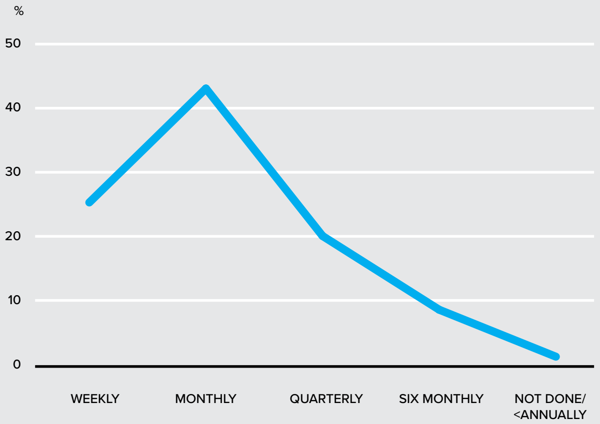


FIGURE 5:
FREQUENCY OF PERFORMANCE CONVERSATIONS



Process discipline
When it comes to regular feedback conversations, 50% of respondents describe these conversations as fireside chats, 17% declare them to be formal or structured, and 9% describe these meetings as coaching conversations. Qualitative feedback from our survey suggests that more rigour is needed, with respondents calling for “accountability”, “structure”, “discipline” and “support”. Coaching-oriented conversations provide an ideal framework for peer-to-peer accountability: a nurturing mix of support and challenge.

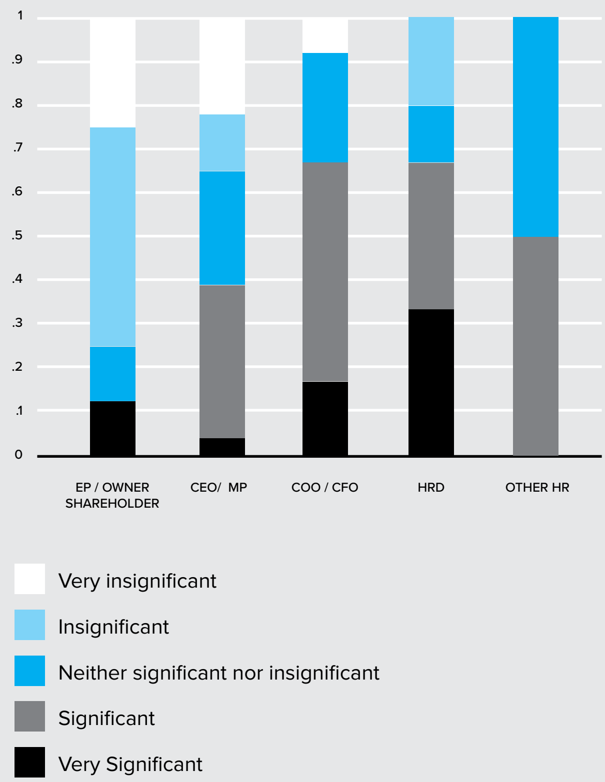
Project-based feedback
Project-based feedback (or matter-based feedback for law firms) can provide partners with ongoing, work-based feedback from peers, team members and even clients. It fulfils the parallel goals of performance and process improvement. Despite these advantages, just under 6% of respondents agree that project reviews are “part of how we work”, while only 15% say they’re done “regularly”. Sector analysis shows accounting firms leading (52% employ routine or regular project feedback) while law firms lag (15%).

Streamlining the process
The current contribution management process in many firms is burdensome, especially for Managing Partners (MPs):

- MPs retain primary responsibility for reviews for firms with up to 50 partners. Only beyond this point do Remuneration Committees and PGHs take on these tasks. MPs need to spread responsibility while maintaining strong oversight.
- HRDs are regularly excluded from the process. While HRDs want more involvement, partners (including MPs) do not agree (see Figure 6). Firms that exclude capable HRDs are overlooking vital process design and execution expertise.
- Technology and analytics become more important to respondents as firms grow (see Figure 7). From last year’s research we understand that only 30% of firms deploy contribution management software for partners, a surprisingly low figure.

FIGURE 6:
SHARING RESPONSIBILITIES

Desired level of HR involvement (by role)



Primary responsibility for conducting reviews

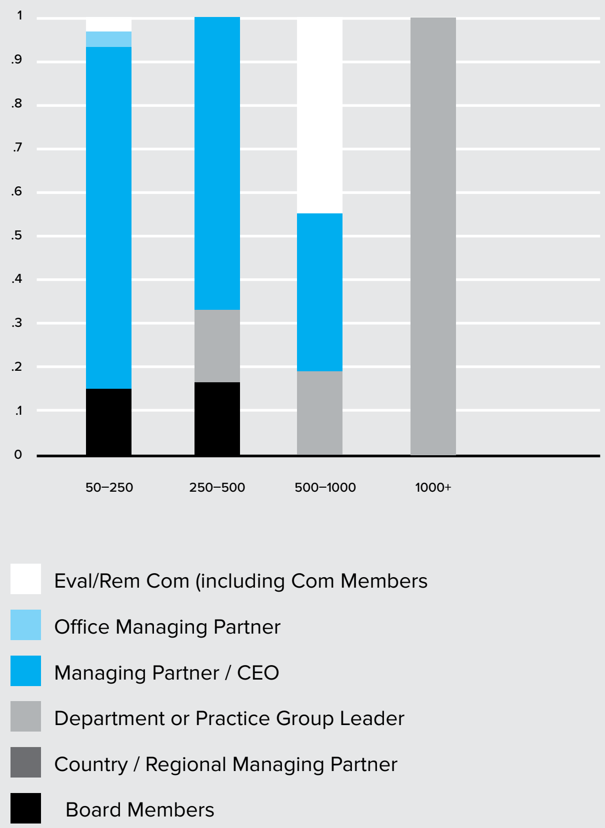
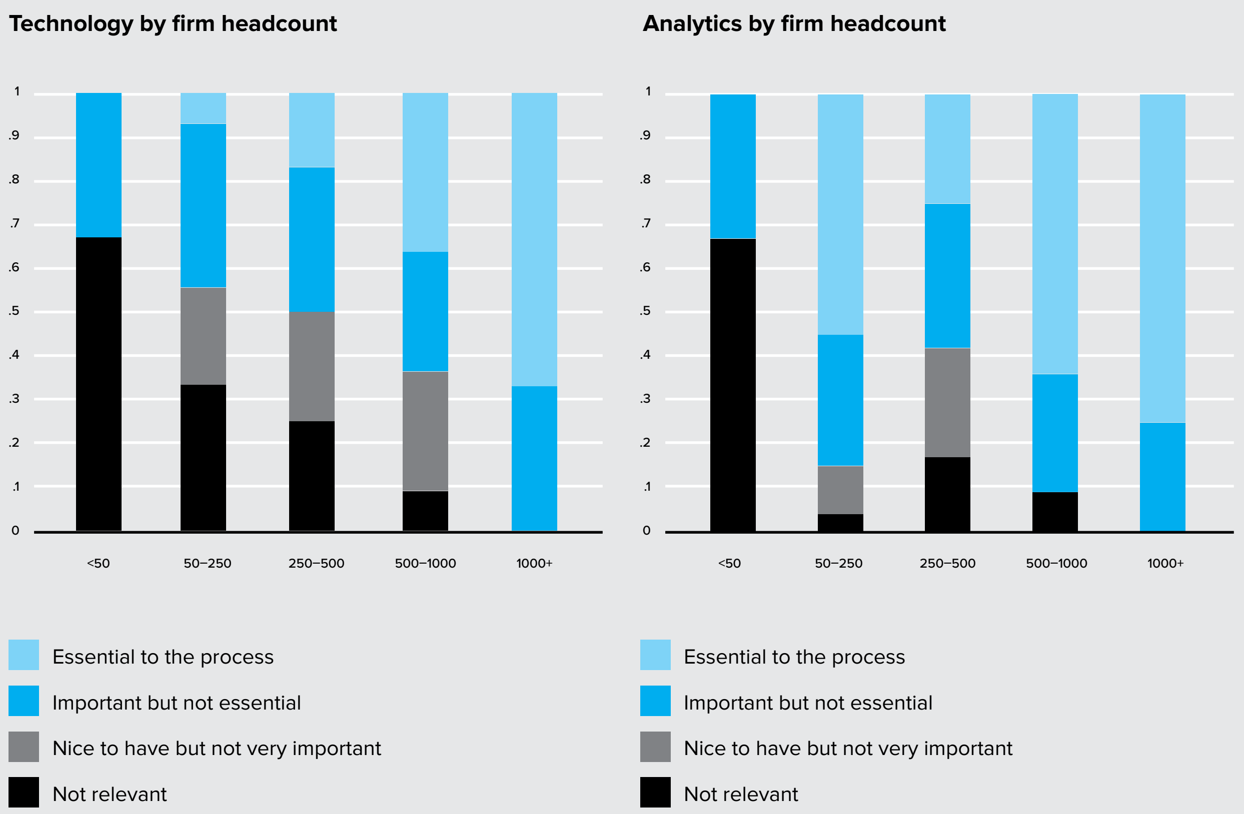


FIGURE 7:
USE OF TECHNOLOGY AND ANALYTICS



4. Decision making and governance

Remuneration governance addresses how a firm ties partner contribution to reward, including who decides reward outcomes, how determinations are made and how effectively these reward decisions are communicated.

Key findings from the survey:

Contribution's tie to reward
Our respondents indicate that the connection between contribution management and compensation is highly variable (see Figure 8). Only 26% of respondents consider formal reviews substantially affect the pay result. That is a low result, even allowing for those firms that operate a pure lockstep.

Transparency
Transparency in remuneration outcomes is lacking. Over a third of respondents (38%) do not agree that the way in which a partner's pay is determined is transparent.

Remuneration Committee
When it comes to remuneration determinations, many of our respondents leave it to a partner remuneration committee or the board (see Figure 9). A substantial number of firms rely on the Managing Partner to undertake this work. The larger the firm, the higher the need to establish a separate body to determine partner pay that is binding on the partnership. Trust in the entire decision-making process (and in the committee members) is important. Equally important is that the process is being used to actually drive reward decisions, and not – which is still the case in too many firms - to justify pre-conceived reward conclusions reached in the back room.

FIGURE 8:
LINK TO REMUNERATION

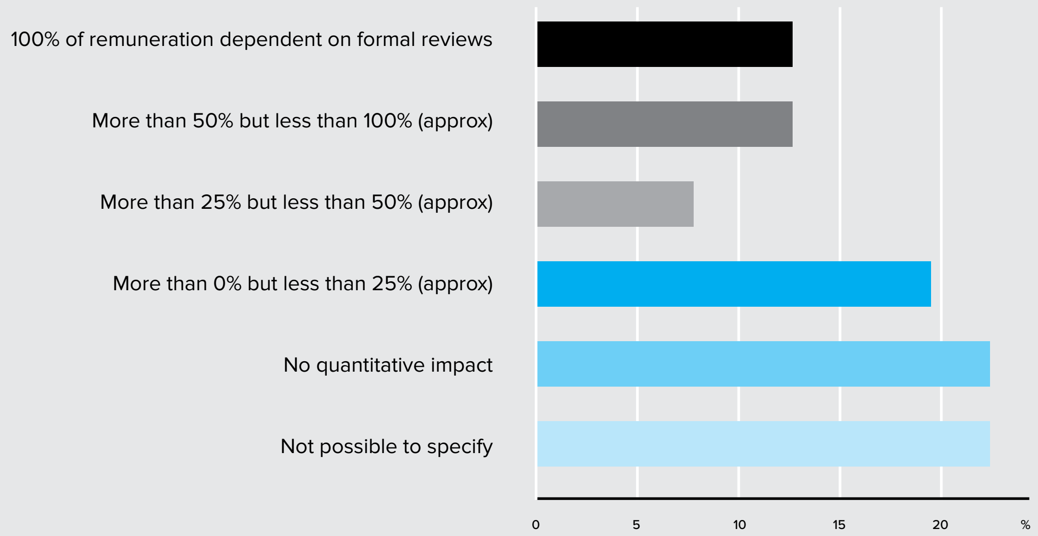
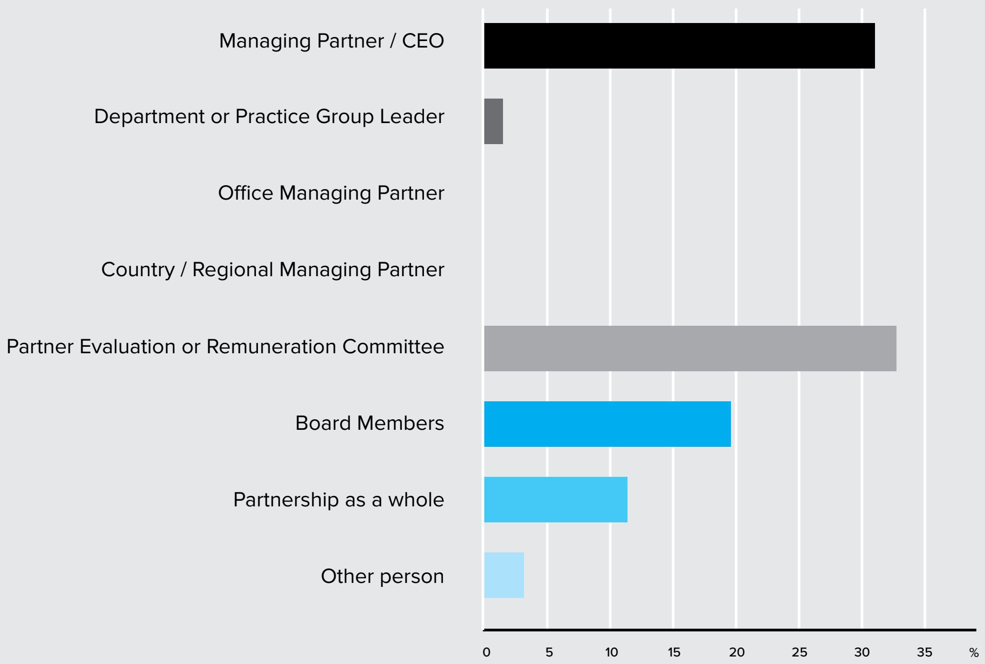


FIGURE 9:
REMUNERATION DECISION MAKING RESPONSIBILITY



Recommendations: evolving partner contribution and reward

A. EMBRACING NEW WAYS

Drawing from our findings, we propose the following new ways for thinking about reward structures, partner contribution and contribution-based reward decisions.

FIGURE 10:
EVOLVING KEY ELEMENTS OF THE CONTRIBUTION AND REWARD PROCESS

CURRENT WAYS	NEW WAYS
Annual formal reviews (with an emphasis on the past)	Regular reviews (balancing reflection with future objectives alignment)
Contribution agreed based on a one-size-fits-all model	Contribution flexibly agreed based on partner strengths, specific roles, and position in the partner life cycle
Assessment based on limited inputs / personal financial metrics	Assessment based on multiple inputs (including multi-source client, peer, staff feedback); diverse metrics that reflect agreed contribution
Fixed annual business plans, reviewed annually	Clear plans aligned with partner objectives; reviewed and updated regularly
Occasional, impromptu catch ups; fireside chats	Regular informal coaching conversations that provide a mix of support and challenge
Highly-centralised processes; MP primarily responsible	Shared responsibility between the MP, PGHs, HRD and Partnership Administrator
Opaque remuneration outcomes	Transparent remuneration outcomes with clear, logical links to contribution assessment
Inflexible reward structures; linear compensation model	Flexible reward structures; use of tiers and bonus pools for exceptional contribution and regional variation

B. A MODEL FOR CONTRIBUTION AND REWARD MANAGEMENT

For all the good intentions that leaders have in relation to improving contribution and reward management, we recognise that it's a difficult change to conceive, execute and maintain. Yet it can be done, without an excessive administrative burden.

The following model reflects our collective consulting and software implementation experience in the area of partner contribution and reward.

FIGURE 11:

THE PERFORMANCE TO REWARD TRILOGY – A CALL TO ACTION

1 OWNERSHIP & REWARD STRUCTURE

Vision

A reward structure that is internally equitable and externally competitive given the firm's short- and long-term strategic, operational and financial performance

Call to Action

1. Balance meritocratic and egalitarian elements to ensure fairness, competitiveness and cohesion
2. Use many reward elements, not just profit sharing / equity as primary reward element
3. Provide a clear reward structure that balances tiers / other locked-in elements and where RemCom discretion is applied
4. Recognise that different practices / business units contribute differently to the firm's strategic, operational and financial results while minimising silo effects.

2 ACCOUNTABILITY & CONTRIBUTION (Performance Management)

Vision

A flexible, agile process that provides ongoing feedback and support and leads to a more collaborative and accountable partnership culture.

Call to Action

1. Play to partner strengths and roles when defining and agreeing contribution not one-size-fits-all)
2. Have more frequent conversations to support, challenge and align, with MPs and PGHs as coaches
3. Align conversations with operational business planning process to reduce the burden on the annual review process.
4. Use flexible, light touch software that enables ongoing feedback and collaboration on objectives
5. Broaden metrics that reflect agreed contribution
6. Design simple assessment processes that use multiple inputs while balancing past and future
7. Deploy HR expertise for process design, analytics and to improve decision making.

3 REMUNERATION GOVERNANCE (Decision making related to Reward Outcomes)

Vision

Decision-making processes that are appropriate for the firm's size and position on the organisational life-cycle.

Call to Action

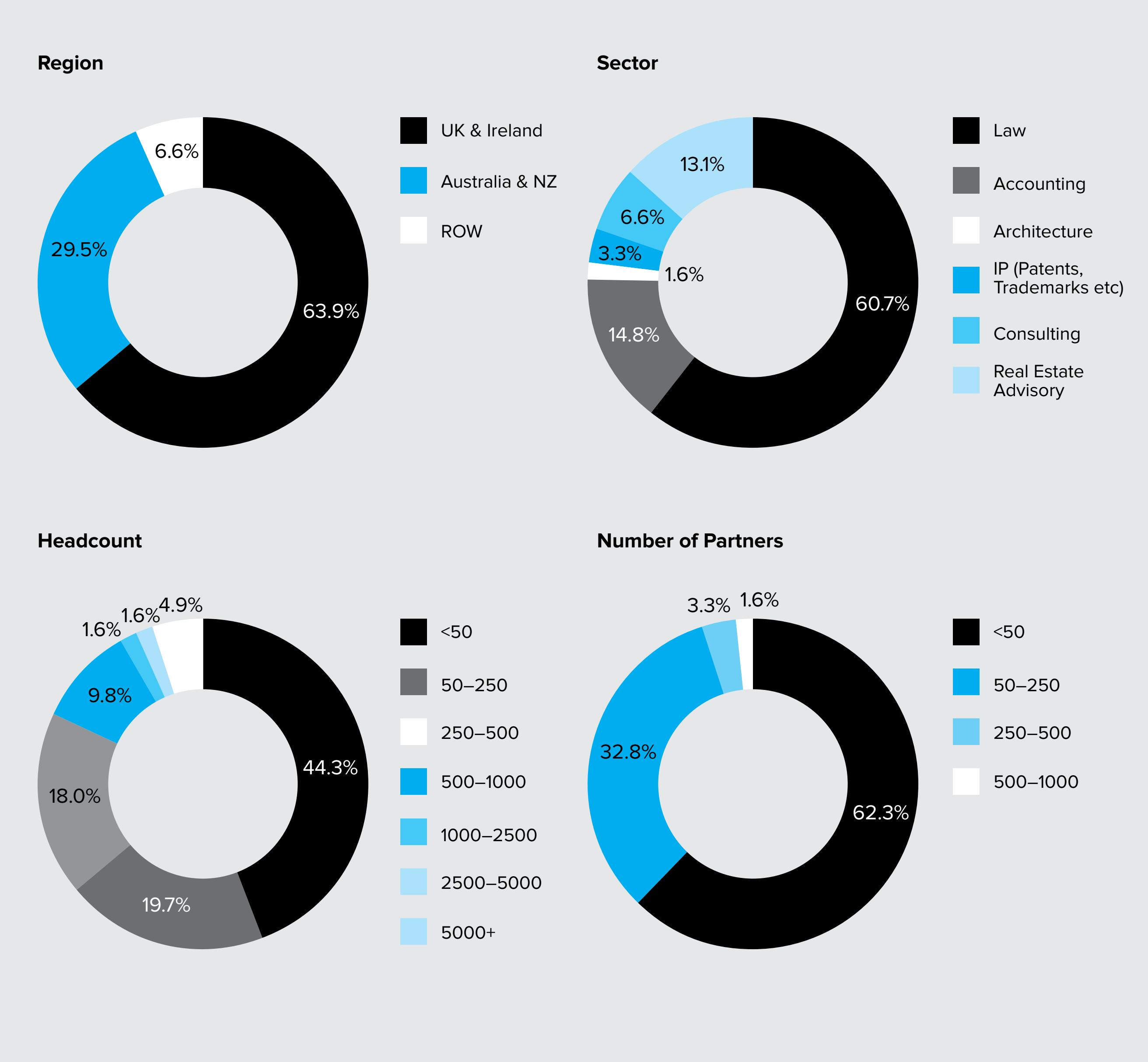
1. Establish transparency about all aspects of decision-making process
2. Eliminate inconsistency between what is measured and what counts for reward purposes
3. Ensure partner reward process is properly resourced
4. Eliminate conflict between management board and remuneration committee.

About the research

RESPONDENT PROFILE

This year, our 66 respondents consisted of managing partners and chairs (38%), human resource directors (24%), chief operating and financial officers (20%) and other C-suite personnel (18%). Our findings in this report also refer to last year's research project (Performance in the Professions 2016) which had a similar respondent profile from 227 respondents.

FIGURE 12:
RESPONDENT PROFILE



RESEARCH METHODS

This study adopts a mixed-methods research approach, combining quantitative and qualitative data from an online survey, coupled with qualitative feedback from follow up interviews with selected survey participants and others.

REPORT AUTHORS

Ray D'Cruz is the co-founder and CEO of Performance Leader, a firm that designs and implements contribution management software for PSFs. The technology supports objective management and collaboration, project reviews and performance reviews. Over the past 15 years Ray has consulted to over 75 PSFs across EMEA, Australia and the US. Ray has particular expertise in performance management process design, and the development of competency frameworks, career models and KPIs for partners and staff. Prior to consulting Ray was a lawyer with Freehills (now Herbert Smith Freehills) and a senior HR practitioner.

Michael Roch is a Global Practice Lead of Internal Consulting Group, a five-year old consulting start-up with ca. 2,500 consultants worldwide focusing on the financial services, professional services and FMCG sectors. Michael works with senior leaders of advisory businesses resolve their most intimate strategic and partnership challenges. For over 20 years, Michael has helped strategic alliances, joint ventures and business platforms compete in over 40 countries worldwide. Michael is internationally recognised expert on partner remuneration in professional services partnerships.

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