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The Changing Role of Partners

150 years ago *The Origin of Species* was published. Although Charles Darwin's work was focused on evolutionary biology it has since become considered to have much relevance to the business world. Central to his theory is the need to adapt in order to survive in a changing environment.

Reduced levels of demand and differing approaches to buying legal services have led to the environment within which law firms operate to change substantially. In some markets liberalization has added pace to the rate of change.

Although a number of law firms have failed over the past 5 years most have adapted – some extremely successfully– to the current more uncertain market characterized by lower growth and lower margins. The potential of IT has been harnessed leading to efficiency and process improvements; leaner business models have been adopted; costs have been reduced; more disciplined approaches to management accepted; and new ways of delivering services to clients introduced.

As part of this process of adaptation staff have been made redundant - and partners too. And in this changed environment increasing numbers of firms are also addressing the equally difficult issue of revising the role and performance expectations of their partners and related to this how profit should be shared.

Initially as the market changed the assumption was that a relatively moderate raising of the bar was what was required: the essence of the role of partners was unchanged, all that was needed was somewhat higher levels of performance. More recently there has been an increasing recognition that this is not the case and that the fundamental nature of the role of partners is changing – in addition to the requirement of an increase in underlying performance. And linked to this new approaches to compensating partners.

Central are three core issues that firms need to address:

- What is the role we require our partners to fulfil?
- What level of performance and contribution should be expected?
- What approach to sharing profit will be the most appropriate?

In addressing these issues the fundamental principle of aligning partners' performance with the strategy of the firm is well understood and unchanged. So too is the principle of ensuring that the compensation of partners is both internally fair and externally competitive. Achieving these principles in practice is where the challenges lie.

A number of factors have an important effect on the partner role in any firm, in particular the firm's strategy and intentions, the culture of the partnership, the emphasis on today's or tomorrow's needs and the extent to which partners' compensation is performance-related. For every firm these factors and their relative importance are different and hence the role partners are expected to fulfil and the way they are compensated will vary. So while there cannot be off-the-peg universal 'solutions' to defining the role of partners or how profit should best be shared there are a number of principles that are common across successful approaches.

Firm Strategy

What is expected of a partner in any firm should reflect the demands placed on the partnership by its aspirations and direction. Ensuring that there is a clear link between the firm's strategy and the partner role is vital. Some aspects of the partner role are likely to be perpetual while the emphasis on other aspects may be temporary. There may be a requirement to place particular emphasis on certain activities for a year or two with the intention that this will reduce thereafter. Firms that do not closely link the role and expectations of their partners with their strategic aims cannot hope to be successful.

Culture

The culture of a partnership has a profound impact on the expectation of partners and also on how they should be compensated. What is the balance between individual entrepreneurialism and team work? What are considered to be acceptable levels of variation in individual partner's contribution and compensation? How highly are non-fee earning activities truly valued? A firm's culture will evolve over time. Typically, this is a process of slow evolution but there are instances when large shifts may occur. Agreeing what is expected of partners plays a key role in defining a shared future for the firm and building the common understanding that is a prerequisite of partnership unity.

Current or Future Needs

Is there a strong focus on the 'here-and now' or is the perspective longer-term? The natural inclination when considering the role of partners is to think about the firm's needs today. But there is also a need for partners to invest in longer-term projects that may not come to fruition for several years. Linking the role to the longer-term ambitions of the partnership and the firm's strategy helps clarify the relative share of the partner role that may reasonably be devoted to long-term initiatives rather than day to day productivity.

Compensation

The role and expectations of partners need to tie in with the process for assessing and managing performance. The approach to profit sharing will more likely be considered fair if the results reward partners making the greatest contribution on aspects of the role deemed most important by the partnership. The more significant the performance-related element of partners' remuneration the more important it is that the role expectations are clearly defined and supported by a range of agreed quantitative measures.

Differing approaches to profit sharing are outside the scope of this Insight but it is worth making two general points. First, it is not necessary to reward all of the behaviours expected of partners. The partner role may reasonably include responsibilities that are not specifically rewarded. Second, overly complex approaches tend to sink under their own weight - there are huge benefits to simplicity.

In a small number of firms the role and performance expectations of partners may change little. In the majority of firms this is not the case. As law firms become larger, increasingly complex, geographically dispersed and more sophisticated the role of partners needs to change. So too will the role change in response to the need to introduce revised approaches to client management, work in different ways, manage and delegate to larger teams, focus increasingly on people management and development, improve approaches to knowledge management, introduce better ways of delivering client service, meet clients expectations for lower fees, change approaches to governance, and so on.

For firms that have been particularly successful in the past changing to the new market environment can be especially challenging. But for all firms as the markets within which they operate evolve, the relative importance of various partner responsibilities, and therefore the role expected of partners, changes. Firms that do not adapt to this will inevitably fail.

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