



## Passionate about performance: Partner performance management in leading law firms

How partner performance can best be managed and rewarded is an issue of major interest to many of Beaton Consulting's law firm clients. While many firms have effective and robust systems in place to manage the performance of solicitors and support staff, they often have greater difficulty in introducing performance management systems for partners. In this context, Beaton Consulting is frequently asked whether it is possible to identify contemporary principles and guidelines for the development of effective systems for managing the performance of partners. This report answers that question, using key findings from a number of qualitative interviews.

### **What we did**

We invited a select group of law firms in Australia and New Zealand to participate in interviews about the distinctive means they adopt to identify, manage and communicate performance issues as they relate to partners. We particularly focused on firms that had a reputation for having introduced innovative or well-constructed practices and policies in this area.

We were interested in discovering whether these firms consistently adopted a pattern or set of practices that could be used more generally as a guide to the development of effective performance management practices.

## Many differences – one thing in common

The challenge seemed straightforward: select a number of firms with a reputation for excellence in managing partner performance, identify what they do and develop a best practice performance management framework for other firms to emulate, thereby enabling them to excel, too.

The reality, however, was somewhat different. Each of the firms studied is highly successful, but there are very distinct differences between firms in the way they manage the performance of partners. For instance, some have adopted highly sophisticated and complex performance management systems, while others have refused to move beyond rudimentary, informal practices.

Other differences related to the way some firms have chosen to link partner performance management with other human resources (HR) and business planning processes. For example,

a number of firms interviewed were convinced that the only way to embed a performance management culture was to link performance appraisals to remuneration and bonuses. Others were equally sure that linking performance outcomes to differential bonus payments simply creates internal conflict, and have abandoned any such links altogether. Both approaches seem to have worked.

**All of these firms passionately believe that managing partner performance is an important strategic role**

While enormous variation in approach to managing performance was evident, we did discover that all of these firms passionately believe that managing partner performance is an

important strategic role. All firms interviewed have committed significant time and resources to planning, monitoring and evaluating partner performance, including receiving feedback from multiple perspectives, making time to communicate frequently on a one-on-one basis and actively supporting the identified needs of partners.

These firms possess an 'active' mindset about creating a healthy work environment in which performance issues can be discussed honestly and openly. They have created an atmosphere in which partners are encouraged to achieve their best, and they have the courage to confront and deal with performance issues.

## What drives performance – common culture and values or a formal system?

Our study found that the differences between partner performance management practices in law firms lie in their underlying assumptions, particularly whether they believe that *culture* and *values* drive performance or that *systems* drive performance.

Firms that assume *culture* and *values* drive performance tend to adopt informal practices. They have an instinctive understanding of the partner's individual circumstances and needs, then somewhat spontaneously discuss these issues and deal with them sensitively at the time, rather than waiting for a formal review cycle. They also rely extensively on networks, rather than formal processes, to obtain broader perspectives about a partner's performance.

**Firms that assume culture and values drive performance tend to adopt informal practices**

Firms that believe systems drive performance tend to take a formal, structured approach. These firms focus on alignment: they define and unambiguously reflect elements of the firm's HR and business planning processes in teams and individual performance plans. Professional development plans are derived from the formal partner performance management process. Sophisticated information systems are generally used to identify performance-related issues. A

detailed timetable is developed and participants are disciplined in adhering to it.

Examples of the different performance management practices adopted by both types of firms are described in more detail in Table 1.

**Firms that believe systems drive performance tend to take a formal, structured approach**

**Table 1: Examples of performance management practices**

### Informal approaches

- 'Fireside chats' conducted by Managing Partner
- Opportunistic coffee breaks or lunches with each partner
- Extensions of formal discussions on other topics into relevant performance domains
- Opportunistic meetings with staff to discuss issues or problems in their work area
- Informal feedback from clients or peers on a partner's performance

### Formal processes

- Individual performance plans and KPIs are developed and linked to the firm's overall plans and KPIs
- Performance plans clearly articulate desired business outcomes plus behaviours that support the values of the firm
- Performance against plans is formally discussed on a quarterly, six-monthly or annual basis using agreed templates
- Feedback is received from a formal suite of systems including 360-degree questionnaires or employee/client surveys
- Individual professional development plans are documented and monitored to support achievement of goals and objectives
- A Performance Evaluation Committee or Task Force reviews each partner's performance
- HR prepares reports and debriefs the Management Committee on overall outcomes

## The winning combination

Despite the significant inter-firm differences in philosophies and approaches around partner performance management that we have identified, it would be misleading to suggest that one approach precludes the other. In reality, firms who have successfully implemented formal systems and processes do not reject informal approaches – rather, they recognise the necessity of maintaining informal day-to-day communication as a precondition for the successful operation of formal processes. This led us to conclude that there is a ‘zone of success’ that combines informal approaches and formal processes into a winning combination.

**A ‘zone of success’ that combines informal approaches and formal processes into a winning combination**

Both of these approaches have merit because they are underpinned by an ‘active’ mindset about managing partner performance. Other, less successful, approaches are based around a ‘passive’ mindset. Firms that adopt a passive

mindset either have no formal practices in place (a ‘cop out’) or formal processes with little commitment to ensuring they are effectively implemented (‘just a system’).

These different approaches, together with their benefits and risks, are highlighted in Figure 1.

	Informal	Formal
Active	<b>Intuitive</b> <ul style="list-style-type: none"> <li>• Precondition for success</li> <li>• High risk if used alone</li> <li>• Lower cost</li> </ul>	<b>Rational</b> <ul style="list-style-type: none"> <li>• Most effective when linked with ‘intuitive’</li> <li>• Lower risk (system is a safety net)</li> <li>• Highest cost</li> </ul>
Passive	<b>Cop out</b> <ul style="list-style-type: none"> <li>• No control</li> <li>• Ignore difficult issues</li> <li>• Pure luck</li> <li>• Lowest cost</li> </ul>	<b>‘Just a system’</b> <ul style="list-style-type: none"> <li>• Breeds cynicism</li> <li>• Costly and wastes time</li> </ul>

Figure 1: Framework of partner performance management practices

 Zone of success

## The irresistible pull towards formalising systems

We also observed that there is an irresistible ‘magnetic pull’ towards the adoption of formal processes in many firms, as illustrated in Figure 2. In other words, there is a compelling drive to convert informal approaches to more rational and systematic methods of managing performance, more resembling corporate practices, often referred to as ‘managerialism’. Those advocating the managerialism approach strongly believe that formal systems are more professional and less risky than subtle, informal approaches.

**There is an irresistible ‘magnetic pull’ towards the adoption of formal processes in many firms**

This pull becomes stronger in a number of circumstances. For example, when a firm is growing in size, and it becomes more difficult to personally deal with individual partner issues, formal systems are seen as a ‘safety net’ that ensures all performance issues are surfaced and resolved. Other examples of the pull

towards formal systems are evident when firms are undergoing rapid change – for example, during a merger or major expansion period. Formal processes are often utilised to bring two different firms together by providing

and clearly communicating a common set of values, and documenting expectations of behaviour and performance.

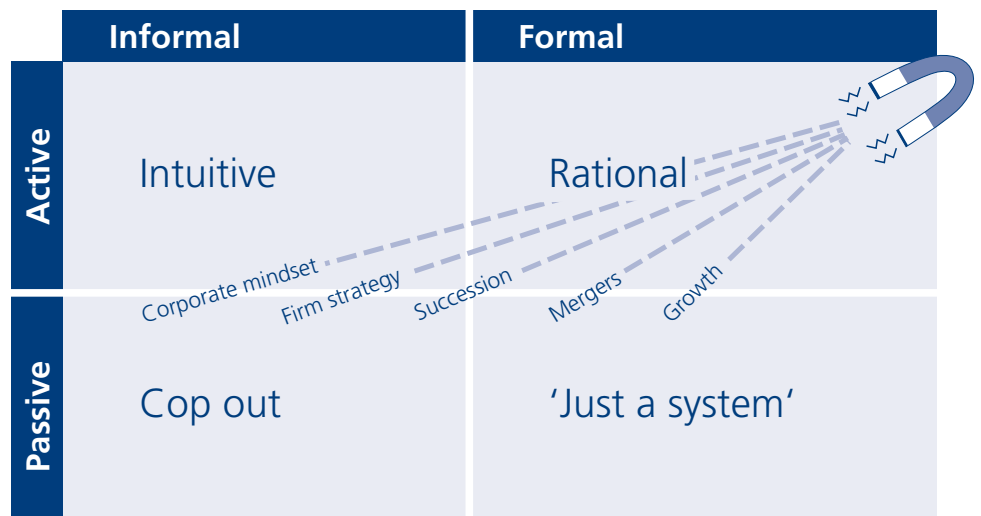


Figure 2: The magnetic pull

### Selecting the wrong framework

While we maintain that there is no single 'right way' to implement performance management (see below), and that there is merit to both informal approaches and formal processes, we also believe it is possible for a firm to make wrong choices, which could have significant implications.

Some wrong choices might be:

- imposing a formal process on a firm that prides itself on entrepreneurship and innovation

### Selecting the framework that's right for your firm

A key issue for law firms is deciding which of the two frameworks (or which combination) is most appropriate.

The key to selecting the most effective partner performance management approach lies in understanding which framework aligns best with the firm's size, culture and lifecycle stage.

**Formal processes** are generally likely to be more successful where:

- a **performance-driven culture already exists** – the HR systems support and drive, but do not create, a performance-driven culture
- a **firm is embarking on a major change process** – for example, significant expansion into new practice areas, an acquisition or merger, or as part of embedding a new vision, direction, set of values or significantly altered performance expectations. HR systems then become an important mechanism for communicating a consistent message and reinforcing such change across the firm
- the **firm wishes to shift mindsets** from an individualistic to a firm-wide approach. In these firms, individual partner plans may be non-existent, or effort and output is too individually focused, and

- relying solely on an informal approach, and refusing to adopt a formal process altogether, in a firm where insufficient trust and candour exists to identify and resolve all partner-related issues
- abandoning informal approaches once a formal process has been introduced.

the firm recognises the need to realign effort and focus to firm-wide goals and priorities

- **firm size** has reached the stage where the Managing Partner is unable to retain close day-to-day personal links with each and every partner.

However, **informal approaches** appear to operate most effectively in:

- **highly entrepreneurial**, creative and responsive partnerships, where firms are always seeking new business ventures or generating new opportunities in new markets. Stable plans and fixed goals have little meaning in an environment of uncertainty and ambiguity
- **firms that are driven by a strong performance-oriented set of values**, where these values can be relied upon to guide the behaviour of individual partners and achieve outcomes, without the need for formal controls and scrutiny
- **relatively small firms**, where the Managing Partner is able to develop a personal relationship with all partners and spend sufficient quality time with each.

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## About Beaton Consulting

Beaton Consulting offers a range of leadership and change management initiatives and tools that enable people to work at their best, and provide guidance in aligning the performance of people, teams and the firm. Our experience is most directed towards professional service firms, internal service providers

and organisations engaged in business-to-business relationships, but spans all industry sectors and includes major corporations. We have particular expertise in understanding how partnerships work – the challenges they face, their unique structures and the capabilities needed to drive their success.