

Second Edition

Law Firm Remuneration, Reward and Motivation

JOHN RENZ



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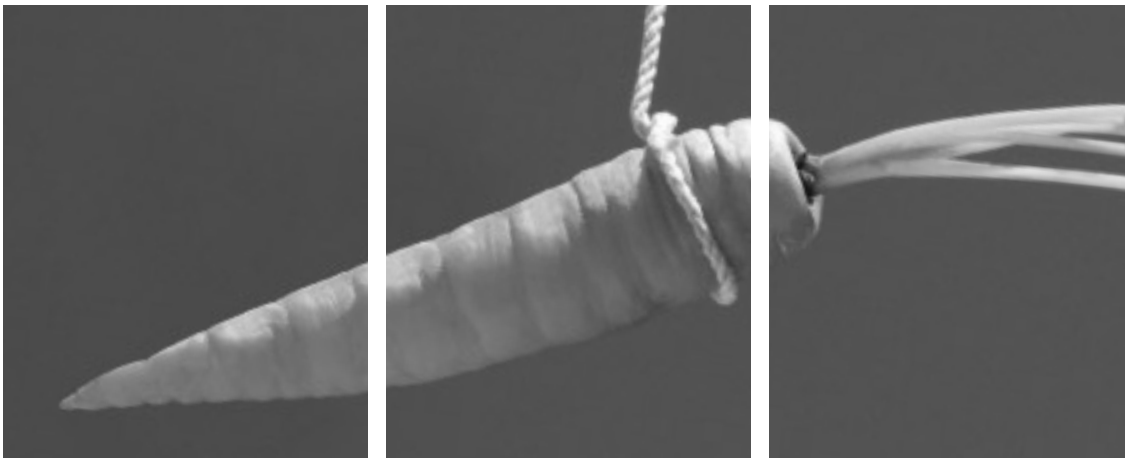
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Executive summary

THE ECONOMIC climate has signalled temporary and structural changes in the market, which will make necessary a full-scale review of business strategy as well as remuneration structures. The ability to respond positively to this change by putting in place the right remuneration structures is linked to the ability of the business to successfully recover from the recession.

The significant and measurable impact on remuneration as a result of the downturn will provide fresh challenges for firms in ensuring maximum efficiency and the maintaining of levels of employee engagement, if they are to continue to succeed and prosper. The current economic conditions will have pushed the cost of labour into sharp focus in terms of business strategy and a desired level of profitability. Getting the most out of your expenditure on remuneration will be key to a firm's success and possibly, in extreme circumstances, continuing existence.

Whereas the first edition of *Law Firm Remuneration, Reward and Motivation* tackled the topic of remuneration and reward in a buoyant market of high turnover and margins (although the fear of the onset of the recession was increasing), this second edition revisits the subject in a different light – or more fittingly – in the shadow of an economic downturn. There has never been a better time to analyse this subject, given the economic, political and social changes which have affected all commercial activities. The discussion and

debate around prodigious City bonuses have added to the tension.

What law firms need to be focusing on now is arriving at sustainable models for long-term business success. The remuneration strategy adopted for your business must be seen in this context and assessed against the risk of not having a motivated and engaged workforce and continuing to attract and retain talent to produce the highest standards of service for clients. The first edition of this report positioned this topic as complex, and the current economic climate has served to make the handling of a law firm's most expensive cost base even more vital in determining success within professional services.

Chapter 1 assesses law firm remuneration in the context of the political, economic and social climate, and the impact of the economic downturn on a law firm's approach to remuneration and reward. It also discusses the impact of the changing fiscal environment and the sustainability of the partnership remuneration model as a perpetual business.

Chapter 2 provides a definition of remuneration and total reward in today's market, as well as current trends in 'pay and rations' approaches. These trends will be mapped out against more general trends within remuneration and, in particular, the balance between fixed and variable pay – a salient issue in every sector.

Chapter 3 examines the increased incidence of variable pay and bonus schemes

and their linkage to a firm's performance. Are bonus schemes effective in managing individual performance and motivating professionals? What is the actual impact of bonus schemes on performance? This chapter outlines the purposes of bonuses often misconceived by law firms, the dangers of only using this form of reward to improve overall firm performance as well as its utility as a tool in managing employees' salary expectations and making sure that employees understand their measured targets at a time where the firm's profitability is being challenged. It also sets out the criteria for awarding bonuses.

Firms do not realise that through their approach to reward, they are sending strong messages internally (the firm's employees) as well as externally (clients or potential clients). It is important, therefore, to explore the various themes within the messages being disseminated and the desired commercial and business objectives. Chapter 4 explores how your firm is perceived through your approach to reward. It makes clear that, in a number of firms, there is often a disconnection between the stated approach and the reality. There are serious implications of having an inconsistent approach and sending mixed messages through remuneration, and these are also discussed in this chapter.

A firm's success can be measured in the level of employee engagement and there is no doubt that firms' reaction to the economic downturn has had serious implications on employee motivation and engagement. Chapter 5 examines some of the risks to your business of having a 'toxic workforce' within your firm and how you can mitigate against the general decrease in employee engagement and motivation. This chapter also covers how you can measure engagement and reward effectively in challenging economic times.

Your approach to reward and motivation should be a key pillar to a coherent people strategy. Chapter 6 covers the important connection between your approach to people and your overall business strategy to achieve your ultimate goals.

Chapters 7 and 8 focus on recent developments in organisational structure and 'rebuilding the deal'. We cannot ignore the wider context within which professional partnerships operate and, as well as economic and political changes, the regulatory landscape is set to change dramatically. In Chapter 7, we examine how firms can leverage off, or exploit, the opportunities inherent in these changes. These changes will not only involve the need for a coherent approach to people matters, but it will involve being able to 'rebuild the deal' in your remuneration strategy.

Chapter 8 provides a concluding commentary on the issues discussed in the report and discusses trends in law firm remuneration, and importantly, how law firms can plan for the future and re-build the deal in light of the pressures facing the people strategy and employment engagement. It considers some of the actions to re-build employee engagement and discretionary effort, and reinforces the link between your business and reward strategy to create a new and sustainable business going forward.

Chapter 9 examines some of the practical ways of assessing and bringing about performance from partners and employees of the firm.

Chapter 10 advises on how firms should position themselves when the market picks up in terms of attracting and retaining talent.

Chapter 11 urges law firms to reassess their values which they should be rewarding to maintain a viable business.

Chapter 12 provides an insight into US law firms' response to the economic downturn

and how they have tackled the issues of reward, remuneration and motivation.

Part 2 is an examination of five law firm case studies. Observations can be made as to how different types of law firms have responded to the economic downturn and how they have adjusted their remuneration strategies. Within the case studies, there are a wide variety of different firms examined – global, international, niche and a regional, more private client-based firm. This provides an opportunity to ‘stress test’ current approaches to law firm employee motivation and remuneration. It will also hopefully create a discussion or debate within your own particular business on how best to approach this issue in these difficult times.

This report blends real-life examples from the professional services sector, theory on current thinking, as well as key trends on what is happening in other sectors in two parts. In building on the first edition, it provides a practical guide to assist law firms or other partnerships in addressing the issues in remuneration, reward and motivation.

About the author

JOHN RENZ is currently director of HR at Novae Group plc, a specialised insurance and reinsurance carrier. John was formerly HR director at law firm Mourant, where he spent five years. Prior to that, he was at CMS Cameron McKenna, helping manage the merger of Cameron Markby Hewitt and McKenna & Co. In both firms, John was instrumental in establishing a remuneration strategy which aligned the aims of the business with reward, culminating in CMS Cameron McKenna featuring in *The Times* 'Top 100 Graduate Employers 2008'.

With around 20 years' experience in HR management, 15 of which have been in professional services, John has held senior positions at Standard Life, global accounting and business advisory firm Grant Thornton, and City law firm Linklaters.

John is a regular speaker at UK and international conferences on a range of HR issues including remuneration and reward. In 2008 John wrote the first edition of this report *Law Firm Remuneration, Reward and Motivation* (also published by Ark Group, 2008), which was a huge success. John also advises professional services organisations on ownership and remuneration models and specialises in executive coaching.

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