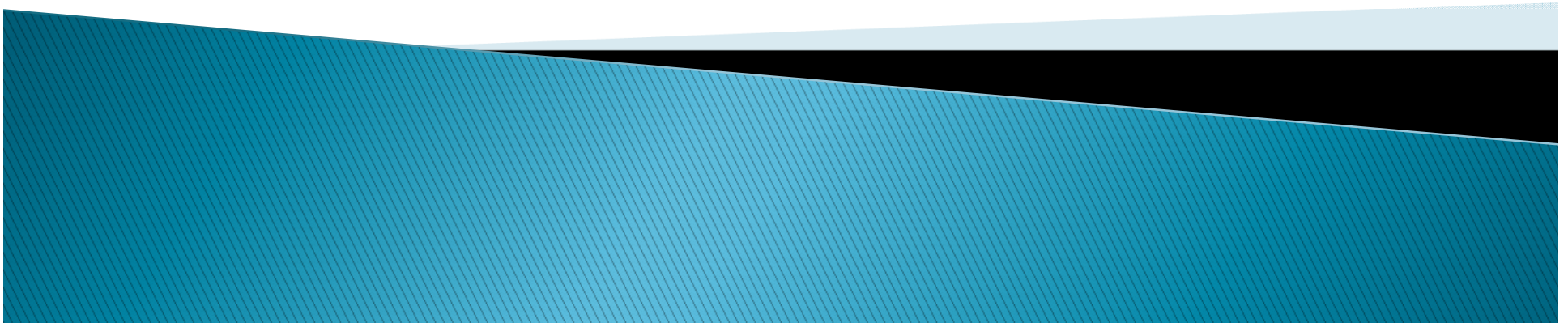


# Non-Equity Partner Compensation: Keys to Finding the Right Salary and Bonus Structure

C4CM

June 25, 2015



# Faculty

Norman K. Clark  
Founder  
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# Agenda

- ▶ Basic Considerations in the Management of Non-Equity Partners
- ▶ Compensation Methodologies and Structure
- ▶ Challenges in Administering a Two-Tier Compensation Structure



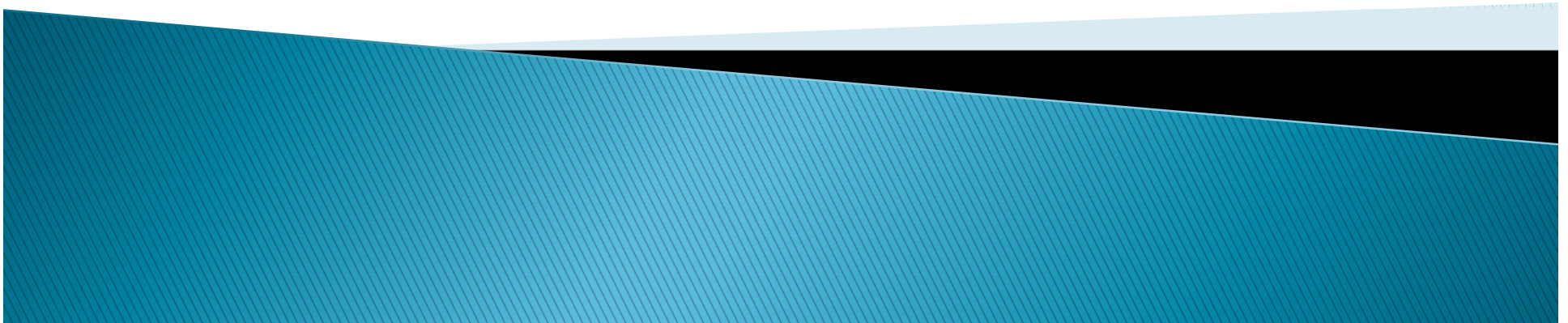


"OUR SILENT PARTNERS BECOME QUITE LOUD WHEN OUR PROFITS BEGIN TO SAG."

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# Basic Considerations in the Management of Non-Equity Partners

Norman Clark  
Principal  
Walker Clark LLC



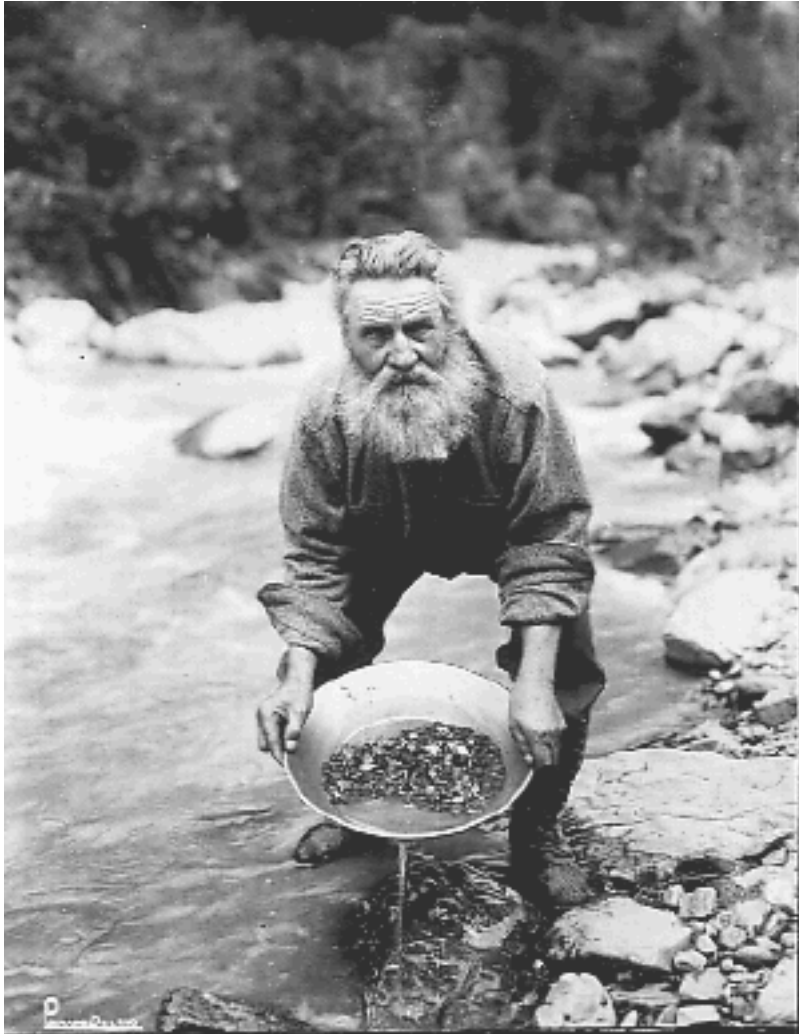




Clarity about  
2 questions

# Which partnership structure will best advance your firm's strategic priorities?





Which partnership structure will best enable you to deliver your firm's business plan?



A man in a dark suit stands with his back to the camera, looking out a large window at a city skyline. His hands are clasped behind his back. The window is framed by gold-colored vertical bars. The city skyline includes several tall buildings, with a prominent white building with a green roof on the right. The sky is overcast. The text "What is the business case for non-equity partners?" is overlaid on the left side of the image in white. A blue and black geometric graphic is in the bottom left corner.

What is the  
business case for  
non-equity  
partners?



Changing patterns in  
law firm capitalization

Career management


Retention of legal  
talent

Profitability





The critical  
importance of clear  
expectations



## **Frequent problem areas**

**Marketing and business development**  
**Profitable practice management**  
**Professional development of associates**



**Any  
compensation  
structure can  
be a great  
success.**

**Any  
compensation  
structure can  
be a miserable  
failure.**



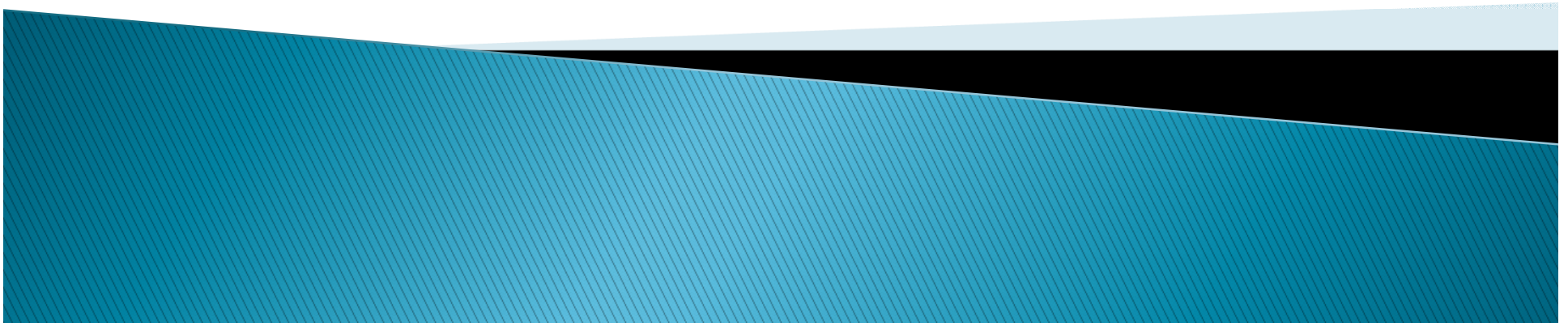
**Does our  
system reward  
what we want  
to reward?**

**Is it fair?**



# Compensation Methodologies and Structure

Stephen (Pete) Peterson  
Managing Director  
Law Firm Business Institute



# Average compensation trends

	2014	2012	2010
Equity	\$971,000	\$896,000	\$811,000
Non-equity	\$338,000	\$336,000	\$335,000

Source: Major, Lindsay & Africa  
2014 Partner Compensation Survey



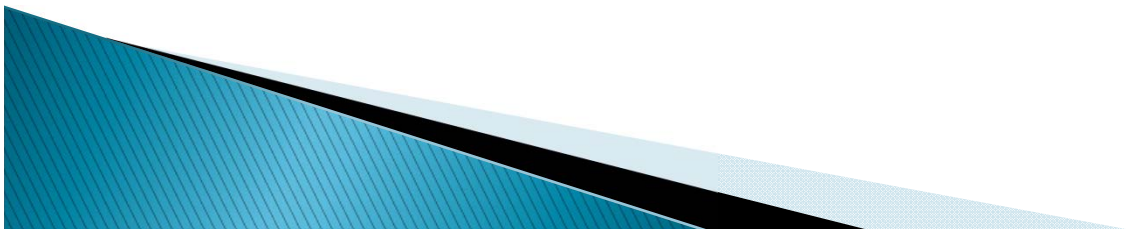
# Criteria for evaluating contributions

- ▶ First rule; cash in must exceed cash out
- ▶ Objective and subjective contributions
- ▶ Relationship of margins and leverage



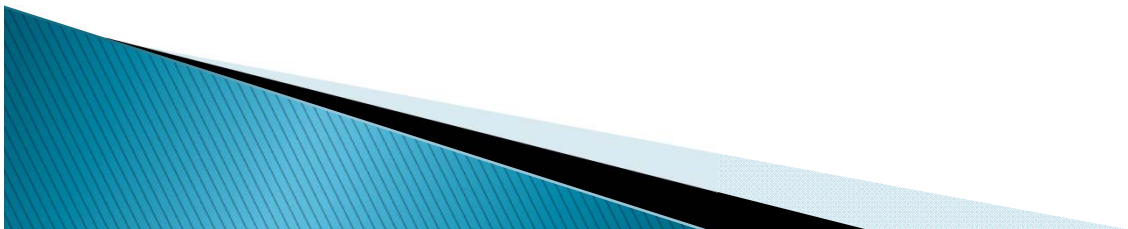
# Subjective contributions

- ▶ Quality of legal services
- ▶ Client management
- ▶ Firm/practice group management
- ▶ Mentoring
- ▶ Firm citizenship
- ▶ Community involvement
- ▶ Activities that raise firm profile
- ▶ Pro bono efforts



# Objective contributions

- ▶ Billable hours
  - ▶ Working attorney collections
  - ▶ Realization
  - ▶ Originations
- 
- ▶ Meeting and achieving firm standards



# Establishing standards and goals

- ▶ “The greatest danger for most of us lies not in setting our aim too high and falling short; but in setting our aim too low and achieving our mark.”



Michelangelo



# Correlation of selected metrics

Firm	Profit margin	Leverage	PPEP
Cozen O'Connor	36%	3.3:1	\$720,000
Gordon & Rees	12%	13.3:1	\$720,000
Herrick	21%	5.2:1	\$720,000
Patton Boggs	22%	4.9:1	\$720,000

Source: 2014 AMLAW 200

# Setting compensation

- ▶ Common approach is base salary plus bonus
- ▶ Added “base” costs include
  - Payroll taxes
  - Medical insurance
  - Life and AD&D
  - Retirement plan contributions



# Common example

	Amount
Last year associate base comp	\$185,000
Promotion to partner “bump”	35,000
Payroll taxes	11,000
Medical, life, AD&D insurance	14,000
Retirement plan match	<u>9,000</u>
Base compensation costs	254,000
Firm overhead/lawyer	<u>150,000</u>
Total direct/indirect costs	404,000
Firm profit margin	30%
Working attorney collections needed	\$577,000

# Providing work to others

	Amount
Working attorney collections	\$577,000
Providing work to younger associate (.5 FTE)	216,000
Collection effort needed	\$793,000



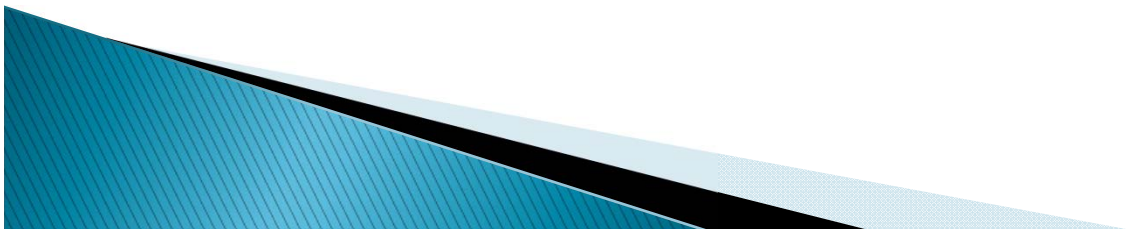


# Tiered systems

	Tier 7		
	<u>Low</u>	<u>Mid</u>	<u>High</u>
W.A. points	125	140	180
O.A. points	140	160	180
P.A. points	10	20	40
R.A. points	<u>10</u>	<u>20</u>	<u>40</u>
Total points	285	340	440
Compensation	\$ 223	\$ 266	\$ 344
	Tier 6		
	<u>Low</u>	<u>Mid</u>	<u>High</u>
W.A. points	125	140	180
O.A. points	50	60	80
P.A. points	20	20	40
R.A. points	<u>20</u>	<u>20</u>	<u>40</u>
Total points	215	240	340
Compensation	\$ 168	\$ 188	\$ 266

# Bonus compensation

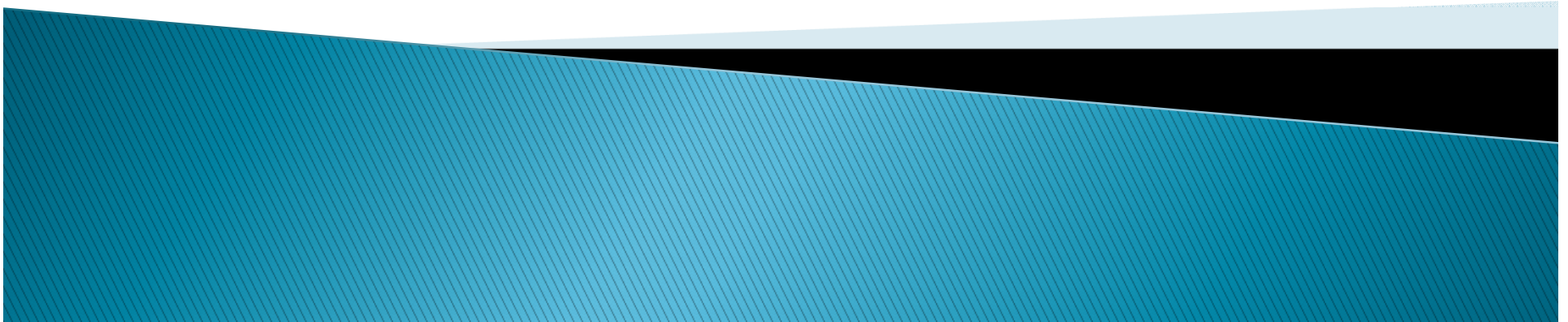
- ▶ Objectively
  - Meeting expectations
  - Exceeding expectations
- ▶ Subjective results
  - Again, meeting or exceeding expectations
- ▶ Sharing in profits
  - Establishing bonus pool similar for equity partners
- ▶ Dare I say commission structures?



# Challenges in Administering a Two-Tier Compensation Structure

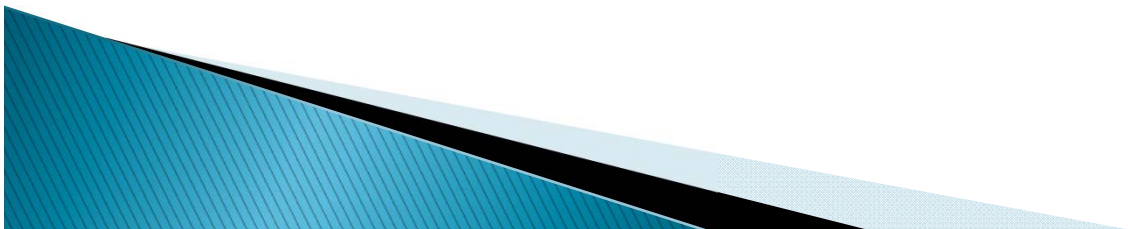
Don G. Lents  
Senior Partner and Chair Emeritus

BRYAN CAVE



# Challenges in administering a two-tier partnership compensation structure

*Note: There are significant differences between the impact of structures where partners can remain in the non-equity tier for an extended period of time (or even throughout their careers) and those where an “up or out” decision is made after the partner has been in the non-equity tier for a fixed period of time. The former is more common and today’s comments are directed primarily towards those circumstances.*



# Challenges

- ▶ Sense of ownership
- ▶ Performance
- ▶ Movement from non-equity to equity (and vice versa)
- ▶ Other issues





# Sense of ownership

One of the most common concerns (and complaints) about two-tier partnership structures is that non-equity partners often do not feel the sense of ownership and commitment to the firm that you would like to see from partners. (The performance challenges to be discussed next are sometimes seen as reflecting the significance of this concern.)

- ▶ Terminology
- ▶ Transparency
  - Of “status”
  - Of “ground rules”
- ▶ Sharing in firm financial results
- ▶ Sharing in governance

# Performance

Survey data (e.g., Citibank annual surveys) suggests that billable hours of non-equity partners often lag those of equity partners. This is the opposite of what you would expect to be the case.

- ▶ Expectations (and criteria for advancement, discussed next)
- ▶ Bonus structures
- ▶ Open v. closed book considerations
- ▶ Future prospects for compensation increases v. avoiding “compensation creep”



# Movement between tiers

For young partners, a two tier structure means that there is a second key point in their career progression, which can have nearly as much significance (and generate nearly as much angst) as the partnership promotion decision. For mid- to later-career partners, such a structure can provide more flexibility, but also create uncertainty about their role and standing with the firm.

- ▶ Timing
- ▶ Criteria
- ▶ Process
- ▶ Use in mid- to later-career circumstances



# Other challenges

- ▶ Employment law considerations
- ▶ Impact on reported firm performance (and perceptions thereof)

