

Finally - An Approach to Control Escalating Associate Salaries

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Flash!! Several New York law firms announced a \$20,000 increase in associate salaries effective January 1st. Chicago and West Coast firms are expected to follow New York's lead. This is a fictional headline, but not that far fetched given there were two significant associate increases (February and June) announced in year 2007.

Why are large law firms increasing associate salaries – once, twice a year? The traditional reasons offered have not changed over the years. Each large law firm believes they are the elite law firm. They need the best and the brightest talent to serve their clients' needs. Furthermore, their clients expect them to attract top students. Predictably, when one firm announces an increase, others follow for competitive reasons (or is it fear the they may not be considered an elite firm). One could call this law firm hubris.

Talent supply/demand is often given as a rationalization. Large firms believe they must pay the highest salary to attract the best and brightest students. Today's best and brightest have many career options – and many that do not require the total life commitment many law firms demand. Competition for talent is fierce.

So, will increasing associate salaries attract the best and brightest to a law career? Throwing money at the problem is certainly one and probably the most common approach.

Law firm economics are simple. If partners can not accept lower profits, then either timekeepers need to work more billable hours, billing rates need to increase, or another expense item needs to be reduced.

Let's analyze. Partners resist lower profits. Not all of the next generation of associates (the millennial generation) is willing to accept working more hours as a condition of higher salary. Work/Life issues are important to them. Almost all clients are rejecting double digit billing rate increases. Other expense items are not that significant to offset significant salary increases.

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Some firms have developed alternative career paths for associates that seemingly address many of the problems. These firms have created two paths for on-partnership-track associates. Path "A" associates have a higher commitment (in terms of hours) to the firm. These associates are paid at the top of the salary scale and have a shorter path to partnership. Path "B" associates have a lower commitment in exchange for lower compensation and a longer path to partnership. Note that path "B" associates are on track to partnership. In the past, law firms created alternative classes (senior associate/staff attorney/Of Counsel) that were essentially off track programs. In an effort to involve associates in the decision process, firms are giving associates a choice of paths with the ability to switch paths during their careers.

This approach shows promise in controlling escalating associate salaries and attracting the best and brightest to a law career. For those associates willing to totally commit their lives to law, high salaries and a faster track to partnership is their reward. For those seeking work/life balance, they can still perform high level work and achieve partnership albeit over a longer period. Firms can represent that they pay the highest salaries. Since it is unlikely all associates will opt for path "A", firms can control their costs.

The key seems to be effective communication and implementation. The parameters of paths need to be explained and considered fair to the associates. Equally as important is whether the quality of work in both paths is perceived as equal.

Will this approach work? Too soon to tell, but it certainly bears watching.

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