

Your Turn

Climb the Legal Ladder

Several years ago, Sullivan & Cromwell, a large New York law firm with offices around the world, raised its starting salary for law school graduates to \$160,000, up from \$145,000 the previous year. But, at Sullivan & Cromwell, like at many firms, starting salaries have not increased since. Indeed, some firms have cut salaries and/or jobs. *The New York Times* reports that law firms have seen a decline in demand for their services since the financial crisis. In fact, Dewey & LeBoeuf, founded in 1909, which just a few years ago had 2,500 employees (including 1,400 attorneys) in 26 offices around the world, recently filed for bankruptcy. Although the root cause can be debated, one point of view is that the firm embraced unfettered growth (including a large merger in 2007) and also engaged in aggressive "poaching" of attorneys from other firms by offering large, multiyear, guaranteed pay packages. When business declined, they were stuck with large fixed compensation costs and also, some would argue, a weakened culture, making it difficult to rally the troops. Indeed, most partners, once they felt things were going downhill, defected to other firms. In such firms, top partners might earn 9 times what some other partners earn. In contrast to the Dewey & LeBoeuf approach, many law firms still follow the traditional law firm approach to compensation, which is

a lock-step model where partners are paid to an important degree based on seniority within a narrower band where the highest paid partners make 4 or 5 times as much as some other partners. Talent is largely groomed from within, as opposed to significant poaching of attorneys from other firms. Most large firms, including Sullivan & Cromwell, use pay structures with six to eight levels from associate to partner. The associate's level is typically based on experience plus performance (see Exhibit 1). In the world of associate attorneys, performance is measured as billable hours. So the associates who meet or exceed the expected billable hours advance to the next level each year. Similar to the tenure process in academic settings, after six to eight years associates are expected to become partners or "find opportunities elsewhere." The likelihood of making partner differs among firms, but the norm seems to be less than one-third of the associates make it. Associates are expected to bill around 2,200 hours per year. That works out to six hours a day 365 days per year. Sullivan & Cromwell partners reportedly earn an average of \$2.97 million a year.

Clients are billed about \$250/hour for each associate. (Some partners' billing rates in New York firms have now hit \$1,000 per hour.) So if associates hit or exceed their targets, they generate \$550,000 annually (\$250 times 2,200 hours). Many firms also use performance bonuses for associates, capped at around \$60,000.

1. Think about the research evidence discussed in the book. Would you expect the Sullivan & Cromwell associates to feel their pay structure is fair? What comparisons would they likely make? What work behaviors would you expect Sullivan & Cromwell's pay structure to motivate? Explain.
2. What about associates who joined the firm four years ago? If the salaries for new associates increased by \$20,000, what would you recommend for other levels in the structure? Explain.

EXHIBIT 1

Pay Structure at a Law Firm

Year	Associate Base Salary		Bonus Range		Bonus Discretionary
	Year		Low	High	
1st		\$160,000	\$0	\$30,000	Yes
2nd		170,000	0	35,000	Yes
3rd		185,000	0	40,000	Yes
4th		210,000	0	45,000	Yes
5th		230,000	0	50,000	Yes
6th		250,000	0	55,000	Yes
7th		265,000	0	60,000	Yes
8th		275,000	0	65,000	Yes

3. Partners make around 10 times the highest-paid associates. A *Wall Street Journal* writer laments that law firms form "giant pyramids . . . (in which) associates at the bottom funnel money to partners at the top." What is missing from the writer's analysis? Hint: Speculate about the likely differences in content and value of the work performed by partners compared to associates. Any parallels to Merrill Lynch's FAs and SVPIs?
4. A few years ago, Sullivan & Cromwell announced that year-end bonuses will be cut in half, with a maximum of \$17,500 for early-career associates and \$32,500 for eighth-year associates. However, last year, bonuses ranged from \$2,500 to \$20,000 and for the current year, bonuses are estimated to be \$1,000 to \$5,000. Should Sullivan & Cromwell be concerned about difficulties in recruiting or retention?

5. How does the Sullivan & Cromwell approach to compensation differ from that of Dewey & LeBoeuf? What are the advantages and disadvantages of each approach?

Sources: www.infirmation.com, www.sullcrom.com; Lindsey Fortado, "Linklaters Becomes Latest Law Firm to Cut Starting Lawyer Pay," *Bloomberg.com*, April 30, 2009; "The American Lawyer," *The AmLaw 100*, April 2009; Susan Beck, "Are Blue-Chip New York Firms Losing Their Balance?" *Law.com*, April 30, 2009; "Heavy Lies the Crown: Associate Cuts Were the Story in 2008. Are Partners Next?" *American Lawyer*, February 2009; "Sullivan & Cromwell Halves Associate Bonuses," *JD Journal*, December 19, 2008. Nathan Koppel and Vanessa O'Connell. "Pay Gap Widens at Big Law Firms as Partners Chase Star Attorneys." *Wall Street Journal*, February 8, 2011. Peter Lattman. "Dewey & LeBoeuf Files for Bankruptcy," *New York Times*, May 28, 2012. David Lat and Elie Mystal. "Breaking: Sullivan & Cromwell Announces (Paltry) Spring Bonuses." April 26, 2012. <http://abovethelaw.com>. Accessed June 1, 2012. Debra Cassens Weiss, "Sullivan & Cromwell Pays Spring Bonuses; Blog Deems them 'Small Change.'" *ABA Journal*, April 27, 2012.

Summary

This section of the book examines pay structures within an organization. The premise underlying internal alignment is that internal pay structures need to be aligned with the organization's business strategy and objectives, the design of the work flow, a concern for the fair treatment of employees, and the intent of motivating employees. The work relationships within a single organization are an important part of internal alignment. The structures are part of the web of incentives within organizations. They affect satisfaction with pay, the willingness to seek and accept promotions to more responsible jobs, the effort to keep learning and undertake additional training, and the propensity to remain with the employer. They also reduce the incidence of pay-related grievances.

The techniques for establishing internally aligned structures include job analysis, job evaluation, and person-based approaches for skill-/competency-based plans. But, in practice, aspects of both jobs and people are used. Although viewed by some as bureaucratic burdens, these techniques can aid in achieving the objectives of the pay system when they are properly designed and managed. Without them, our pay objectives of improving competitiveness and fairness are more difficult to achieve.

We have now finished the first part of the book. We discussed the techniques used to establish internal alignment as well as its effects on compensation objectives. The next part of the book focuses on the next strategic issue in our pay model: external competitiveness.

Review Questions

1. What are the pros and cons of having employees involved in compensation decisions? What forms can employee involvement take?
2. Why does the process used in the design of the internal pay structure matter? Distinguish between the processes used to design and administer a person-based and a job-based approach.
3. If you were managing employee compensation, how would you recommend that your company evaluate the usefulness of its job evaluation or person-based plans?
4. Based on the research on job evaluation, what are the sources of possible gender bias in skill-/competency-based plans?
5. How can a manager ensure that job evaluation or skill-/competency-based plans support a customer-centered strategy?