
Law Firm Compensation

— Planning for 2023 —



Introduction

Brenda A. Barnes is a graduate of the University of Texas at Austin in Accounting and has her MBA from Texas State University. She holds her CPA license. She is a legal and accounting professional with over 35 years of experience working with solo to mid-sized law firms across the United States. Brenda has an innate understanding of best practices in law firm accounting and financial management.

Founded in the fall of 2008, Brenda created B2 Legal Management, LLC, known as B2. Currently she serves as the firm's Business Development Director.

Prior to launching B2, Brenda served in the capacity of Firm Administrator in the Austin, Texas area. During this time she was active in the Association of Legal Administrators (ALA) and served in many leadership roles. She is is Past President of the Austin Chapter.

As a guest speaker and panelist, Brenda has frequently spoken on the following significant topics relevant to the effectiveness and efficiency of law firm practices:

- Budgeting and Cash Flow Forecasting
- Law Firm Compensation
- Succession Planning
- Legal Pricing for Profitability
- The Business of Law
- Financial Internal Controls

Recognized by her peers and law firm managing partners, as well as the business community, Brenda was nominated by the *Austin Business Journal* for the "Profiles in Power" series in 2013, 2014, and 2017; and by the Leukemia Lymphoma Society's *Woman of the Year* in 2018. During her time as the Managing Principal of B2, the company was awarded the following:

- 2016 "Best Places to Work" by the *Austin Business Journal*
- 2020, 2019, 2018 "Best Outsourced Support Company" by *Texas Lawyer*
- 2020 "Best of Hall of Fame" by *Texas Lawyer*

Camille Stell serves as President of Lawyers Mutual Consulting & Services. She is a frequent author and speaker on the topics of law firm compensation, retirement and succession planning, and law firm trends of the future.

Camille is a Fellow in the College of Law Practice Management. She also served on the North Carolina State Bar Regulatory Review Subcommittee and continues to serve as a member of the NC Pro Bono Resource Coordinators Network, the Advisory Group for the Duke Law Tech Lab and as Chair of the Raleigh Chapter of the Legal Marketing Association.

Camille is the co-author of two books written during the pandemic: *Designing a Succession Plan for your Law Practice: A Step-by-Step Guide for Preparing Your Firm for Maximum Value*, published in 2021 and *RESPECT: Insights in Law Firm Compensation*, published in 2022.



<https://www.lawyersmutualconsulting.com>

Introduction to Attorney Compensation Systems

Compensation Overview

Definitions of commonly used terms

- Equity Partner
- Nonequity Partner



Common Compensation Systems

- Equal Partnership
- Incentive-Based Systems
- Eat-What-You-Kill
- Lock-step Systems
- Unique Formulas

Characteristics of a Modern Compensation Plan

- Reflects both goals and values
- Evergreen plans
- Transparency
- Pay Equity
- Client Acquisition

Other Motivators and Trending Rewards

- Know generational differences
- Focus on team member growth
- Offer flexible and modern work environment
- Foster professional development
- Consider law school reimbursement
- Consider education reimbursement

Partner Compensation Systems

Partner Compensation Defined

- The *system* used to determine each partner's income
- The *share* of the firm's total income allocated to each partner
- Partner compensation is an art rather than a science - tangible and intangible performance attributes



Common Systems- Performance Based

- One Person Decides
- Compensation Committee
- Paper and Pencil or Full Balloting
- Pure Formula
- Shared Overhead

Common Systems - Non-Performance Based

- Ownership percentage
- Pay equal
- Seniority or lockstep

Formula Systems - FMG

Finder - The person who brings the client to the firm

Minder - The person who manages the client relationship and the engagement

Grinder - The person who works billable hours on all client projects

Designing a Compensation System

- Align system with your firm culture and strategic plan
- Determine what areas the firm wants to measure and therefore reward - objective and subjective criteria
- Determine who will administer the system
- Establish communication channels

Business Origination

Types of Origination

- Referrals
- New Matters from Existing Clients
- Finder Sales
- Inherited Clients
- Firm Clients
- Small Firms
- Large Firms



Who Gets the Credit?

- Finder
- Minder
- Team

How Long is Credit Granted?

- In Perpetuity
- Limited Time Period
- No Credit

Other Factors to Consider

- From your client's perspective
- New partners and senior attorneys
- The value of transparency

Associate Compensation

Factors to Consider

- Align compensation system with firm goals
- The burden of law school debt
- The emotional factors of compensation
- Objective and subjective factors



Compensation Plan Best Practices

- Should be evergreen
- Internal consistency
- Collaboration
- Linking plan to firm strategy
- Innovation
- Cultural alignment
- External competitiveness

Partnership Track

- Establish the criteria to make partner
- Communicate the criteria to associates
- Will the firm offer equity positions or non-equity positions or both?
- What will be the capital contribution buy-in if equity position offered?

Compensation Carve-Outs

Paying New Partners

- Celebrate the promotion
- Compensation should be higher than when they were an associate!
- W2 employee vs K1 Partner
- Capital contribution
- Equity vs. non equity



Paying Non-Equity Partners

- Treat non-equity compensation the same as equity partner compensation
- Non-equity partners should make more than senior associates
- Clear communication with the new non-equity partner on what it takes to be equity partner
- Non-Equity partnership offers are a great way to manage associate retention

Part-Time Partners and Associates

- Two types of part-time attorneys - those near retirement and those who want to work a reduced schedule for personal reasons
- Part-time partners who are not retired should remain equity partners.
- Retiring partners who still want to work (some), should give up their equity status and be paid under a separate compensation agreement

Paying Newly Merged-In and Laterally Hired Partners

- What to pay laterals may be the most contentious discussion topic for most law firms
- Will the lateral be offered an equity or non equity partner position?
- For most firms, the lateral is brought in as a non equity that will transition to an equity position after a defined period of time.
- If firm offers an equity position from the start, then compensation needs to be a combination of a negotiated amount for first year or two and then the lateral should be treated the same as all other equity partners

Paying Practice Section Heads and Industry Team Leaders

- Like Managing Partners, they are asked to give up a significant amount of time to leading a group of attorneys.
- Compensation can be fixed, credit hours as if billed and collected, give additional amount at year-end based on performance of duties and profitability of the practice groups.
- Some firms give no compensation at all

Paying Other Unique Circumstances

- Firms that have groups or practice areas that may not fit the overall strategic goals of the firm but are independently successful and self-supporting.
- Contingency cases
- Paying partners who exit before retirement

Compensation System Biases

Four Main Patterns of Bias

- The Prove it Again (PIA) Bias
- The Tightrope Bias
- The Maternal Wall Bias
- The Tug of War Bias



Bias exists in the basic business systems of attorneys' workplace

- Get hired
- Receive fair performance evaluations
- Get mentoring
- Receive high-quality assignments
- Access networking opportunities
- Get paid fairly, and
- Get promoted

Bias in Compensation

- Women of color agreed that their pay is comparable to their colleagues of similar experience and seniority at a level of 31 percentage points lower than white men; white women agreed at level of 24 percentage points lower than white men
- Similarly, when asked if they get paid less than their colleagues of similar experience and skill level, women of color agreed at a level 31 percentage points higher than white men, while white women agreed at a level 24 percentage points higher than white men.

Bias Testing - How to Interrupt Bias

- Use metrics
- From the results, implement bias interrupters
- Determine if there are patterned differences between majority men, majority women, men of color and women of color, including any other underrepresented group that the organization tracks such as military veterans or member of the LGBTQ+ community.
- Ask other members of the firm to review the compensation recommendations and determine if there is any inherent biases.
- Always take steps to address and resolve compensation biases

Resources

- The Minority Corporate Counsel Association <https://mcca.com/>
- Diversity Lab <https://www.diversitylab.com/>
- The Center for WorkLife Law <https://worklifelaw.org>
- The American Bar Association Commission on Women in the Profession www.americanbar.org/groups/diversity/women/
- Bias Interrupters <https://www.biasinterrupters.org>

Trends in Compensation

Workplace Trends

- The Great Resignation
- The Great Restructuring
- The Great Renegotiation
- The Quiet Quit



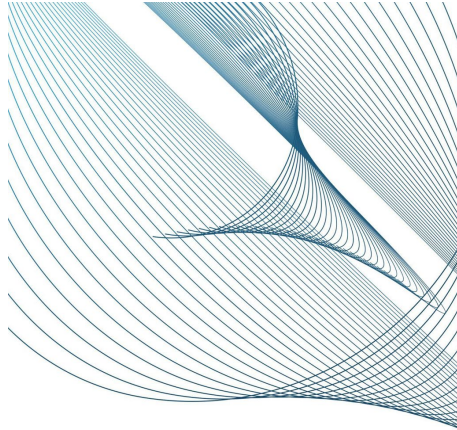
Other Trends Impacting Compensation

- Legal Deserts
- Planning for Retirement
- Succession Planning
- Benefits Beyond Salary
- Accommodating Modern Work Schedules
- Pay Transparency

QUESTIONS OR COMMENTS?



THANK YOU!



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**RESPECT – An Insight to
Attorney Compensation Plans**

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