Law Firms Reassess Partner Compensation Amid Changing Dynamics

In recent times, law firms are increasingly making adjustments to partner compensation due to factors such as decreased productivity and upcoming retirements. These changes mark a departure from the more collegial atmosphere that historically dominated the legal profession, according to several legal consultants who spoke with *Law.com*.

A Shift from Traditional Compensation Models

Historically, reducing partner compensation was seen as a rare occurrence in elite law firms. Matthew Bersani, a founding partner of legal consultancy firm Cliff Group, highlighted this shift. “In the white-shoe days, it was unheard of to move somebody down the compensation ladder,” he explained. However, this approach has changed significantly, with many firms now opting to adjust partner shares based on performance and other factors.

Bersani estimated that, in any given year, around 10% to 20% of partners in a firm may experience a reduction in shares or "points," which reflect ownership stakes within the firm.

Varied Perspectives on Compensation Reductions

Not all experts agree on the extent of compensation cuts. Blane Prescott, another legal consultant, believes the percentage of partners facing reductions may be higher, with estimates ranging between 20% to 30%. Prescott noted that this has become an increasingly common practice as firms take a more performance-driven approach to compensation.

However, Kristin Stark, a consultant with Fairfax Associates, suggested that a significant portion of these reductions might be linked to partners who are transitioning out of the legal profession, particularly due to retirement. “Some of these performance management decisions are tied to retirements, not just performance issues,” Stark pointed out.

Historical Context and Economic Influence

Stark also noted that downgrading partner compensation became more prevalent during challenging economic times, such as the financial crisis of the late 2000s and the onset of the COVID-19 pandemic. During those periods, law firms were forced to make tough decisions regarding partner compensation.

Currently, law firms are performing well financially, and this improved economic outlook is providing a cushion for lower-performing partners. Stark described the trend as “peanut buttering” compensation, meaning firms are distributing the financial gains more evenly across partners, helping offset the impact for those who are less productive.

The Future of Partner Compensation

As law firms continue to navigate a competitive and evolving landscape, the focus on performance-driven compensation adjustments is likely to remain. While economic prosperity may provide some relief, the trend toward cutting compensation for partners based on individual performance or nearing retirement suggests a more business-like approach to managing firm resources.

Don’t be a silent ninja! Let us know your thoughts in the comment section below.