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BEING A LAW FIRM PARTNER WAS ONCE A JOB FOR LIFE. THAT CULTURE IS ALL BUT DEAD.

by

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The Wall Street Journal

FEATURED ARTICLE

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THE WALL STREET JOURNAL.

https://www.wsj.com/articles/being-a-law-firm-partner-was-once-a-job-for-life-that-culture-is-all-but-dead-11565362437

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Being a Law Firm Partner Was Once a Job for Life. That Culture Is All but Dead.

At the modern law firm, not all partners are created equal, and data and billings rule

By Sara Randazzo

Aug. 9, 2019 10:53 am ET

Four hundred of Kirkland & Ellis LLP's top lawyers gathered in May at an oceanfront resort in Southern California to toast another banner year.

Kirkland was the highest-grossing law firm in the world for the second year running, earning $3.76 billion in revenue. When a slide flashed on the screen, showing the value of the firm's shares, the partners in the room quickly did the math. They would be taking home $1.75 million to $15 million.

Not invited were another 560 partners, who were back at the firm's 15 offices around the world, working. Though outwardly carrying the same title as those lounging poolside in California, they hold no equity in the firm and generally can expect to make $800,000 at most. While a comfortable living, the salary and its implied second-class status is not the reward many expected after striving to join the venerated partnership.

This is life at the modern law firm, where not all partners are created equal, and data and money rule.

Being named a partner once meant joining a band of lawyers who jointly tended to longtime clients and took home comfortable, and roughly equal, paychecks. Job security was virtually guaranteed and partners rarely jumped ship.

That model, and the culture that grew up around it, is all but dead. Law firms are now often partnerships in name only. Full-time chief executives, some without law degrees, have replaced the senior partner running human resources and accounting. Law firm names have trended toward the shorter and snappier, more befitting a tote bag than a law library.

Many firms have expanded rapidly to mirror the growth of their corporate clients, with hundreds of partners spread around the world. The largest, Dentons, recently hit 10,000 lawyers in 78 countries, around a third of them partners.

"Can you be partners with someone you don't even know?" said legal consultant Aric Press.

In the new paradigm, lawyers are expendable, and partners may jump to a competitor for the right amount of money, taking as many clients as possible with them on the way out.

Junior lawyers always worked long hours for years before being promoted, but that meant a kind of lifetime tenure. Today, making partner can take more than a decade and still requires scraping for new business. Becoming a partner, the industry saying goes, is like winning a pie-eating contest only to find the prize is more pie.

Elliott Portnoy, Dentons's global chief executive, in Washington. Dentons is the world's largest law firm, with 10,000 lawyers in 78 countries, around a third of them partners. PHOTO: LEXEY SWALL/GRAIN FOR THE WALL STREET JOURNAL

"If you get partners in their private moments to talk about ambitions for their children, I would be very surprised if many would articulate partnership in a large law firm," said Elliott Portnoy, Dentons's global chief executive.

Gradual change

In the 1980s, the most elite law firms were small and leaned on close ties to a few marquee clients passed down from one generation of partners to the next. Cravath, Swaine & Moore LLP worked for International Business Machines Corp. Davis Polk & Wardwell LLP represented Morgan Stanley . Shearman & Sterling LLP had Citibank. With a steady stream of work assured, few partners thought to look elsewhere.

In 1985, trade magazine American Lawyer began publishing the revenue and profits of the nation's top firms. Partners suddenly realized they could make more money at a competitor. Often, clients followed them.

Meanwhile, firms grew and merged into one-stop legal shops, combing deal work, litigation, and tax and labor advice. In the late 1960s, the country's largest was Shearman & Sterling, with 169 lawyers. Today there are 29 U.S. firms with at least 1,000 lawyers.

A focus on data replaced tightknit camaraderie. Firms closely track how many billable hours each lawyer has logged, which clients are late on payment, and how many hours an assignment usually takes.

When Miles Scully joined Gordon & Rees 30 years ago, he said, "I don't know if we knew how to look at a financial statement."

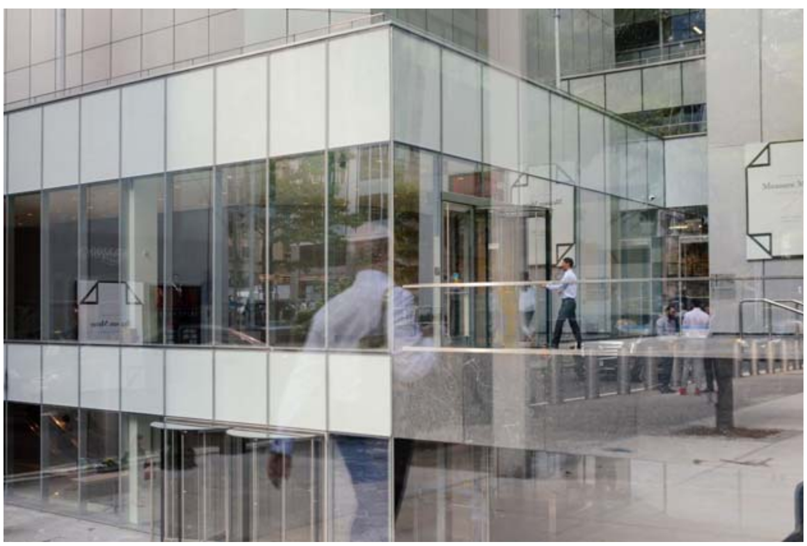
"It was still the 'Mad Men' days. We'd have three-martini lunches," he said. "At the end of the year, you looked at what was in the bank account and distributed it."

No firm embodies the changes more than Kirkland, which was founded in Chicago in 1909 and made its name on trial work for the Tribune Co. and other clients. The firm declined to comment for this article.

Over the past decade, Kirkland has become known for making high-price offers to rising stars at competitors, for $10 million a year or more in some cases. It has embraced the two-tiered partner system, made up of a junior class paid a set salary and an inner circle of equity partners, who split the firm's profits.

The system is meant to reward ambitious young lawyers faster, before they weary of the entry-level title of associate. Left unsaid: The promotion often justifies a bump in their hourly rate to around $1,000, which enriches senior partners who share in the firm's profits.

The changes have pushed the spread between Kirkland's highest- and lowest-paid partners to 43-to-1. Among its equity partners, the spread is nearing 9 to 1. Traditionally, the best-paid partner made no more than three or four times the most junior at the nation's top law firms.



Kirkland & Ellis's office building entrance in New York. The firm has embraced the two-tiered partner system.
PHOTO: MICHAEL BUCHER/THE WALL STREET JOURNAL

Leaders at rival firms say Kirkland's pay has forced them to pay their own top performers more, at risk of blowing apart their culture.

Simpson Thacher & Bartlett LLP, a frequent target of Kirkland's poaching efforts, has boosted the range between highest and lowest paid partners from less than 4-to-1 to about 6-to-1 in recent years, according to one partner. Top partners earn about $9 million. Simpson declined to comment.

The investment-bank model

When David Greenwald returned to co-lead Fried, Frank, Harris, Shriver & Jacobson

LLP in 2013 after a turn as a top Goldman Sachs in-house lawyer, the Wall Street firm was dragging. Revenue had fallen 17% since 2007 and competitors were picking off its lawyers.

One problem, he noticed, was that partners were notoriously lax about turning in their timesheets, which meant clients weren't always getting billed. The slips were costing the firm $6 million a year.

Mr. Greenwald realized the firm needed to operate less like a law firm partnership and more like the investment bank he'd just left, if it wanted to survive.

He closed underperforming Asia offices and created a finance committee. All partners had to turn in plans for how to expand their businesses. Partners were paid more on merit than seniority, and could no longer see how much each of their peers made.

And Mr. Greenwald told partners to submit their timesheets every week or risk a fine.

Average profits for equity partners at Fried Frank have doubled since 2013, to more than $3 million last year, according to the firm. Gone is the egalitarianism that marked Mr. Greenwald's early days at the firm: Fried Frank's highest-paid partner makes 13 times its lowest-paid.

"We're all on the path from being small partnerships, in which everyone can get in a room and debate and make a decision, to by necessity having to centralize a lot of the decision-making in a group of people or an individual," Mr. Greenwald said.

That journey from partnerships to profit machines has made some lawyers very wealthy. At the 15 most-profitable law firms, top partners bill on average $1,655 an hour and their rates are rising faster than inflation, according to legal analytics company Bodhala.

At the nation's 100 largest firms, average equity-partner profits have doubled since 2004, to $1.88 million last year, according to American Lawyer. Eight firms average more than $4 million.

"We're making much more than anybody who doesn't save lives deserves," said David Boies, the litigator who broke off from Cravath in 1997 to launch his own firm. In his best years, Mr. Boies has paid himself $25 million, a spokeswoman confirmed.

Pity the associate

As firms compete to keep profits rising for those at the top, lawyers further down the ladder are sometimes getting left behind. Promising associates who could once expect to be named a partner within seven or eight years are waiting 10 years or more.

Firms have created new steppingstones along the way to appease them—and keep them grinding.

One newly promoted partner at a big firm said he was shocked to learn he would have to spend a year as counsel, an increasingly popular interim title. The firm told him it was to prepare him for the bigger change of being partner. “I wouldn’t be a cynical lawyer if I didn’t think there were other profit-motive reasons,” he said.

Another popular stop-off is “non-equity partner,” the title held by those 560 Kirkland lawyers not invited to the California retreat. They earn a salary rather than sharing firm profits.

In 2000, 78% of partners held equity in their firms, according to American Lawyer’s ALM Intelligence. Last year, 56% did.

At Kirkland, junior partners compete each year for a few coveted slots in the equity-earning partnership, many billing more than 2,500 hours a year to try to set themselves apart. Given how much of the day’s work isn’t billable, that can require working 80 hours or more a week.

At elite New York firms, a two-tiered system was once unthinkable. Partners were partners. In the past year, however, cracks have emerged at two of them.

Simpson Thacher’s leaders told partners in April that they plan to start naming non-equity partners. It is hard not to see the move as a response to poaching by Kirkland, which has lured away more than a dozen Simpson lawyers since 2016, most of them associates and counsel that Kirkland made into partners.

“If the firm won’t be loyal to you,” said David Lat, a longtime lawyer and legal blogger turned recruiter, “why should you be loyal to the firm?”

Willkie Farr & Gallagher LLP, a 131-year old firm that was home to a future U.S. Supreme Court Justice and two New York governors, made a similar announcement this spring when it rolled out a two-tiered partnership. Its leaders said the move is intended to reward promising young lawyers earlier and make the firm more competitive in recruiting.

“It was getting harder to tell associates, ‘stick around for 10 years and see what happens then,’ ” said Willkie’s chairman, Steven Gartner. “They wanted more certainty and wanted it sooner.”

Making partner doesn't just take longer. It takes hustle. A few decades ago, partner titles were handed out largely on the basis of being technically proficient. Now, being a business generator is a crucial component.

Janice Mac Avoy, a Fried Frank partner, said when she earned the partner title 23 years ago, the business model was "wait for the phone to ring" and do a good job for the client on the other end.

When a partner suggested a lawyer being considered for promotion had great contacts and could generate new business, she recalls a fellow partner saying, "You know that's not an appropriate consideration."

Those who do make the cut encounter a new set of stressors. Bureaucratic tasks pile on top of the same billable-hour expectations. New partners face pressure to bring in enough new business to cover their own salary, plus those beneath them.

Kevin Smith went to law school in the early 2000s because he had lawyers in his family and wasn't sure what else to do. After graduating, he clerked for two federal judges then joined an international law firm.

Making partner five years later was one of the best days of his life, he says. He soon realized the new title "makes all the bad things worse" about working in a law firm.

"There's more email, more of the blame if anything goes wrong, just more stress in general," he said.

After 6½ years, he quit the partnership to travel abroad while working part time for the firm.

The holdouts

Even as the world changes around them, some law firms are holding on to the old partnership ethos.

A handful of law firms still operate under a lockstep compensation system, which pays partners in a relatively tight band based on seniority, rather than how much revenue they bring in.

At one such firm, Cleary Gottlieb Steen & Hamilton LLP, the hierarchy is laid out on the firm's letterhead, where partners are listed by rank. (The list doubles as a handy tool for summer interns unsure which partner assigning them tasks is more important.)

Cravath, another lockstep firm and long considered one of the nation's most elite, recently celebrated its 200th year with a party at the New-York Historical Society. Guests left with a glossy coffee-table book titled “Becoming Cravath” that highlights the firm’s most famous clients and boasts of the “Cravath system” of nurturing talent.

The firm’s partners are still, by any measure, well-paid; the average made $4.6 million last year, according to American Lawyer. But being paid by years of service, rather than productivity, can fail to keep the biggest rainmakers happy.

A high-profile deal partner, Scott Barshay, jumped in 2016 from Cravath to New York firm Paul, Weiss, Rifkind, Wharton & Garrison LLP. Mr. Barshay, who brought over clients including IBM and Xerox Corp., is now one of a handful of Paul Weiss partners paid more than $10 million a year, according to people familiar with his pay.

Paul Weiss declined to comment.

The firm has long had a modified lockstep model, which gives Chairman Brad Karp the ability to pay bonuses to those at the top.

Mr. Karp has expressed concern about what’s happening to the profession. At a December 2017 meeting of the firm’s partners, he spoke at length about how modern law firms bore little resemblance to those a decade earlier, before the recession hit.

“Many law firms have become so focused on the next client, the next matter, the next dollar, that they have failed to notice the gradual, but inexorable, disintegration of their cultural glue,” he said, according to a transcript of his remarks.

In the same talk, he also noted that Paul Weiss profits had risen 92% over the previous decade.

Last year, they rose even higher, to an average of $5.02 million per partner.

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