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**LAW FIRMS DEMOTE PARTNERS AS
PRESSURE MOUNTS OVER PROFITS**

by

Sara Randazzo, The Wall Street Journal

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Law Firms Demote Partners as Pressure Mounts Over Profits

Firms now frequently assess which lawyers are worthy enough for the top rungs of partnership



Shearman & Sterling senior partner Creighton Condon said the firm will move some partners into an expanded nonequity tier, meaning they have set compensation rather than sharing in the upside. *PHOTO: PETER FOLEY/BLOOMBERG NEWS*

By SARA RANDAZZO

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New York law firm Shearman & Sterling LLP said recently it plans to cull the ranks of lawyers who share in its profits, by demoting some partners to a lower-paid rung of the law firm's hierarchy.

The move, unthinkable a generation ago, has become a reality of modern-day legal practice.

Faced with client pressure to keep down costs and industry competition to achieve the highest profits, law firms now frequently assess which lawyers are worthy enough for the top rungs of partnership. Those who don't bill enough hours or bring in enough business are quietly asked to leave or demoted from the so-called equity tier.

In a survey of law firm leaders from late last year by legal trade publication the American Lawyer, 56% said they planned to take away equity from partners in the coming year, and 67% said they planned to ask partners to leave.

"It's very difficult for firms to deal with this issue," said Jeffrey Lowe, head of the law firm practice at recruiting firm Major, Lindsey & Africa. "But the business pressure is forcing them to do so."

Law firms have been demoting and cutting partners since even before the recession, say consultants and others close to the industry. Initial rounds focused on the truly dead weight—partners who enjoyed the title and prestige but didn't pull in enough revenue.

Demand for legal services never fully bounced back after the downturn, causing firms to trim even further. These days, even partners with strong legal skills and a few clients aren't making the grade.

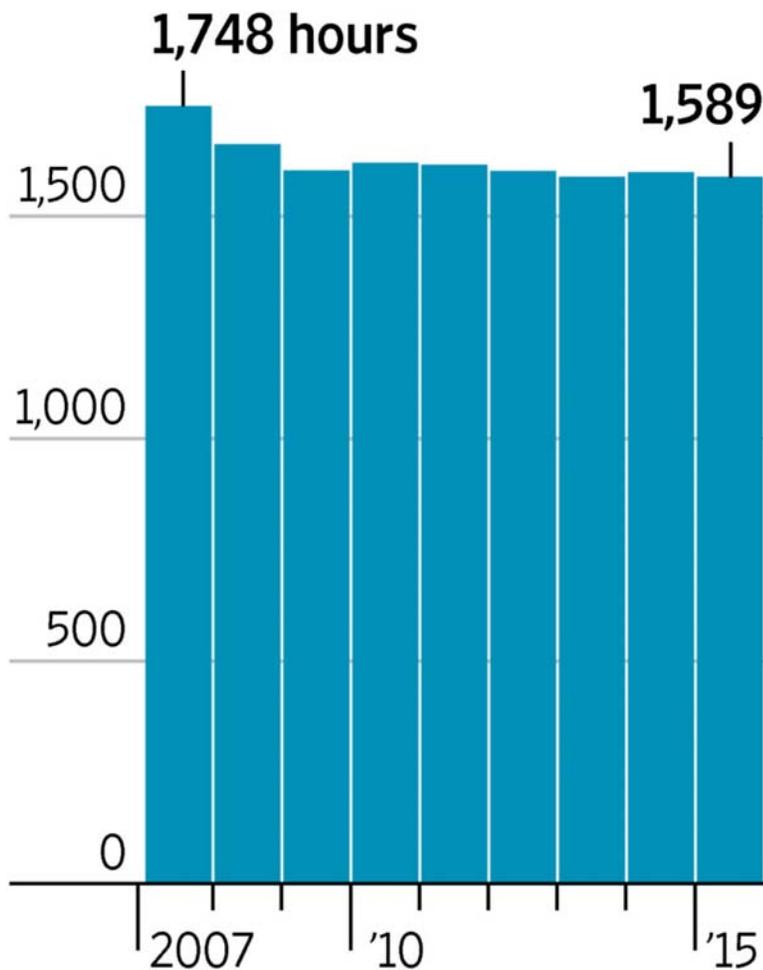
"Firms don't give that long of a runway," said New York legal recruiter Sharon Mahn, who said she has seen partners pushed out of firms in as little as six months after they were hired.

The past year and a half has seen "pervasive" trimming of partners at the nation's top 100 law firms, said legal consultant Peter Zeughauser. Though the year started strong for firms, he said, the second and third quarters have brought weakening demand, deflating earlier optimism. "There are a lot of firms that have seriously underperforming partners," Mr. Zeughauser said, meaning those billing in the range of 1,100 hours for the year, compared with equity partners' norms of upward of 1,650 hours.

For Shearman, the changes come after a few years of rumblings in the legal marketplace that the firm's fortunes were dimming. Once one of Wall Street's elite, the firm is now competing to differentiate itself in a market that's bifurcating into the ultrarich, and everyone else.

Productivity Drop

The average number of hours logged by equity partners at large law firms has dropped **9%** since 2007.



Source: Citi Private Bank Law Firm Group
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Shearman still has plenty of name-brand clients. The firm is advising Wells Fargo & Co.'s board in an independent investigation related to the bank's sales-tactics scandal; and counts Dow Chemical Co., General Electric Co. and Bank of America Corp. among its clients.

Shearman senior partner Creighton Condon said that by year-end, the firm will move some partners into an expanded, so-called nonequity tier, meaning they have set compensation rather than sharing in the upside. The demotion will come with a pay cut, he said, but partners are still eligible for bonuses.

Mr. Condon insists the move isn't a backhanded way of asking partners to leave, a tactic employed by some firms, though it could spawn some departures.

"We hope partners will look at it as the best path forward for the business," he said. The firm is also making wider changes to its practice-group structure.

Firms employ other methods to keep their top ranks as profitable as possible. Some offer weak partners incentives if they leave on their own. Others force departures by slashing pay.

Apart from helping make partners rich, keeping profits high matters for bragging rights. The metric of “profits per equity partner,” reported by the American Lawyer, is closely followed in the industry.

Chadbourne & Parke LLP, a New York-based law firm, approached one of its Washington, D.C., lawyers earlier this year for a difficult conversation. According to the firm and court documents, Chadbourne leaders told equity partner Kerrie Campbell that her practice, representing clients with defamation, First Amendment and consumer product safety issues, no longer fit the firm’s strategic direction and that she needed to leave.

“I felt like someone...knocked the wind out of me,” said Ms. Campbell, who joined Chadbourne in 2014 and continues to work for the firm. “I didn’t see it coming.”

Ms. Campbell, whose Chadbourne office is outfitted with furniture and memorabilia built up over 30 years of practice, maintains she was a high-performing partner. She sued the firm in August for gender discrimination. Chadbourne has denied the allegations in the pending suit, noting that it has asked other partners to leave, “both male and female, without incident.”

As a young lawyer, Ms. Campbell said becoming an equity partner represented the ultimate achievement. But now, she said, partnership “doesn’t mean what it used to.”

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