

The ABCs of How Law Firms Reward Hard Work

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(Summarized, paraphrased, and highlighted by Gm.)

In most professions, employees were happy to have made it through yet another difficult economic year with their jobs intact. Big bonuses were something handed out two years ago, not in 2002.

ASSOCIATE BONUSES

But **large-law-firm associates** live in a different world. With billable hours down in most transactional practice areas, the number of associates around the country receiving bonuses is down. Yet, some firms are still offering generous bonuses to a good number of associates who already earn six-figure salaries. The method for determining how much the bonuses will be and who gets them varies from firm to firm and city to city. [Methods include]:

- In New York, the firm's overall profitability often controls, with some firms offering the same bonus packages as peer firms.
- In Washington, D.C., ... Arnold & Porter bucked the trend of most firms there by rewarding all 260 D.C. associates with bonuses of \$5,500 to \$16,500, regardless of hours billed or performance evaluations. Other large D.C. firms typically awarded bonuses to less than half of their associates, usually based on billable hours with some other merit-based considerations.
- In San Francisco, *The Recorder* reported that one of that city's largest firms, Wilson Sonsini *et al.* has for the first time imposed a minimum billable-hour requirement on associates if they want to receive bonuses, which range from \$2,500 to \$30,000.
- In Philadelphia, bonuses are by and large determined by reaching a billable-hour threshold, though some firms also offer discretionary merit bonuses, profit sharing and a percentage of business that an associate originates. The standard bonus at most large Philadelphia firms is usually based on a billable-hour requirement of 1,900 to 2,100 hours, though some firms give credit for non-billable activities such as pro bono and recruiting. Those bonuses this year range from \$1,000 to \$5,000, but if an associate's billables are extraordinarily high, he or she can receive even more. ... Certain firms that are having a good year are offering discretionary bonuses to associates who have either performed well individually or are part of a high-performing practice area. ...

BONUS CONSIDERATIONS AND NON-CONSIDERATIONS:

At Blank Rome (Phil.), if you write an article, help with recruiting, sit on a board, participate in the bar association, that's just investing in your own future, and we all do that. It's no different than partners who do the same thing" [and no bonus will be due].

Huge starting salaries require a tradeoff, making choices and sacrifices. The general goal in Philadelphia is to reward individuals without comparison to New York goings-on.

Hit 2,000 hours, and receive a standard \$5,000 bonus. The firm credits associates for up to 50 hours of pro bono work but otherwise determines who gets bonuses based almost entirely on billables.

Discretionary bonuses are also awarded. Formula is a combination of billable hours multiplied by billing rates and then a percentage of that number as set by department heads. Discretionary bonuses are rare

and usually just a token sum.

Be wary of anomalous results, where junior associates grinding out hours were receiving higher bonuses than more skilled senior associates just because of the type of work they handled.

Consider a a bonus program where one single bonus is awarded based on a variety of factors, including merit, business development, hours worked, and “good citizen” functions such as *pro bono* activities, administrative tasks, recruiting, marketing, and other contributions such as taking on significant responsibilities in recruiting, practice development and other activities.

Some firms have lock-step bonuses based on class year with bonuses for 7Y (or another pre-determined year) being calculated on an individual basis. These bonuses are often contingent on billing a certain number of hours, though work quality, administrative participation and *pro bono* are all factored into the equation.

Consider guaranteed bonuses.

Flat-out discretionary bonuses do exist.

Consider profit-sharing and creating a “bonus pool.”

Origination bonuses may be based on a minimum amount of fees received before kicking in. These may take a percentage tack at those receivables. On the other hand, if an associate brings in business, he may receive a flat percentage (say 10%) of that business.

If associates meet a minimum billable-hour requirement, then they are eligible for a \$5,000 minimum bonus (e.g.), which can escalate to as much as \$30,000 (e.g.) for more experienced associates.

Morgan Lewis has a four-level system for bonuses based on merit and experience: (1) The first level comprises first-year associates; (2) the second level includes second- and third-years and a few high-achieving first-years; (3) the third level consists mainly of fourth- and fifth-years, with some high-achieving second- and third-years; and (4) the fourth level includes associates in their sixth year and above, with a few less-experienced, high-achieving associates. This may reward associates based on performance rather than the number of years they have been out of law school.

Reed Smith recently paid its "associate production bonuses" on the following system: (1) Tier I bonus (\$7,500) if they billed at least 2,050 hours and worked at least 2,350 hours or a (2) Tier II bonus (\$15,000) if they billed at least 2,200 hours and worked at least 2,500 hours. The firm also added "associate individual performance bonuses" which are discretionary and are awarded for "exceptional legal work, extraordinary personal investment, and significant practice development and successes."