

Not-So-Great Expectations

Renee Deger
The Recorder
Sept. 11, 2003

Even the greediest of associates has been humbled by the economic downturn.

With so many lawyers looking for work, salary rarely comes up in job interviews -- a big change from the days when money was topic No. 1 for prospective associates, San Francisco Bay Area hiring partners say.

These days, candidates would rather talk about the firm's debt load, real estate liabilities and long-term stability.

"Think about the era these associates have lived through," said Anthony de Alcuaz, the managing partner of McDermott, Will & Emery's Palo Alto, Calif., office. He then ticked off the firms that have dissolved since Jan. 1 -- Brobeck, Phleger & Harrison, Skjerven Morrill and Altheimer & Gray, just to name a few.

"In the high times, the underlying stability of the firm was not a question that came up," de Alcuaz said. "It is a different time."

For the third straight year, base pay is flat for Bay Area associates, a *Recorder* survey of associate salaries shows. And many law firm managers at local and national firms don't expect that to change next year either. What's more, associates don't seem anxious to press the issue, a major shift from early 2000 when associates created a Web site to pressure partners at their firms to raise salaries.

"Relative to a lot of people in the Valley, we're very well paid," said one mid-level associate at Wilson Sonsini Goodrich & Rosati, who spoke on condition of anonymity. "The fact there haven't been any salary reductions is good."

The Recorder's annual survey examines associate compensation -- including base pay, bonuses and benefits -- at a cross-section of firms with offices in the region. The results show that not only is base pay static, but bonuses -- which grew to \$60,000 or more for senior associates at some firms during the tech boom -- have declined as well. Gone, for example, is the \$20,000 guaranteed bonus that most tech firms paid first-year associates in 1999 and 2000. After the boom ended, firms backed away from the promise in lieu of smaller, discretionary rewards.

"People think it makes sense," a mid-level Skadden, Arps, Slate, Meagher & Flom associate said. "It's an economic reality."

Partners apparently feel the same way. They said they aren't willing to boost salaries as long as the market is flooded with job hunters.

"It's dependent on the economy," said Karen Ballack, one of the hiring partners at Weil, Gotshal & Manges in Silicon Valley. "So long as there are plenty of talented candidates on the market, I think none of the firms are going to be incentivized to raise the base salaries."

Still, Bay Area associates aren't that far behind their peers in New York, traditionally the gold standard for lawyer pay. Most New York and Bay Area firms are sticking to \$125,000 in base pay for first-year associates. The exception to the rule is Skadden Arps. The New York-based behemoth pays first-year associates \$140,000. Five years ago, West Coast players paid about \$9,000 a year less, on average, than New York firms.

New York firms, however, may be better equipped to handle the pay. They don't seem to be suffering as much from the downturn. And if they chose to give raises, Bay Area counterparts would be hard-pressed to follow.

"In today's economy, and given the difference generally in the client base between many N.Y. firms and local firms,

it may mean they are performing better," Ballack said. "As long as that continues to be the case, there will continue to be a gap" in pay.

But Morrison & Foerster chairman Keith Wetmore said Bay Area firms aren't feeling much pressure right now to keep up. Not only is the job market saturated, but New Yorkers currently don't have a voracious appetite for associates.

"They're less of a competitive influence today than any time I can remember," Wetmore said.

The single biggest jump in associate pay came in December 1999 when Gunderson Dettmer Stough Villeneuve Franklin & Hachigian gave its associates a 30 percent pay raise, bumping first-year base pay from \$96,000 to its current base of \$125,000. Under pressure from associates, other Bay Area firms agreed to match. In the months that followed, many of the New York and national firms followed suit.

John Wilson, managing partner of Shearman & Sterling's Bay Area offices, said his firm had bumped first-year pay from \$95,000 to \$100,000 just one month before, and then had to increase it again to match the Bay Area firms.

In hindsight, the increase in associate pay came at the worst possible time, Wilson said, coming just months before technology stocks started to fall in value.

"Events like the Gunderson pop pulled the whole industry along at precisely the wrong moment," Wilson said. "Law firms had to deal with those salaries during the downturn."

And Wetmore acknowledged that "the salary increases did have a Darwinian effect in causing some firms to collapse, and indeed, it had a hand in creating high cost structures."

For his role in helping to create today's law firm economics, Robert Gunderson Jr., a co-founder of Gunderson Dettmer, is unrepentant.

"We certainly don't regret what we did in '99," Gunderson said. "It was a response to the market conditions at the time, and I think what's happening in today's market is sensible, as well, in terms of the changed conditions."

But Gunderson held off making predictions similar to other managers that salaries would be flat for the next year or two. "The last couple of years have shown that you have to expect the unexpected," Gunderson said.

He may have a point. Three years ago, no one would have expected that associates would stop asking about salary. Today, most would-be hires don't even mention pay, said Avis Caravello, a San Francisco legal recruiter.

"Three years ago, it was one of the more important aspects of the conversation," Caravello said. "Now, if salary comes up, it comes up in the context of the candidate telling me they are flexible, they're willing to reclassify and take a step back for the right position and that salary isn't everything."

And law firm managers point out that many associates are still making more money this year than they did last year. Orrick, Herrington & Sutcliffe chairman Ralph Baxter Jr. said associates are getting raises in the form of step increases as they progress up the seniority ladder.

"Your income is going to go up even if the amount articulated for each level is flat," Baxter said.

Until things loosen up in the economy, many managers won't feel pressure to bump base salaries, Baxter said.

"It's not so much 'you're lucky to have a job.' It's the dynamics of the market," Baxter said. "It's not as though associates are facing flat incomes with sharply rising costs."