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Pay Gap Increases Between Equity and Nonequity Partners

Ross Todd, *The Am Law Daily*

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The compensation gap between equity partners and nonequity partners at the nation's largest law firms is growing, according to new [survey research](#) by legal search consultant Major, Lindsey & Africa.

Equity partners averaged \$971,000 in annual compensation, versus \$338,000 for nonequity partners, according to MLA's third biennial survey of what partners are paid at large law firms in the United States. While average pay for equity partners has risen nearly 20 percent from \$811,000 since MLA's first survey in 2010, nonequity pay has remained relatively flat, increasing just \$2,000 over the same period.

Jeffrey Lowe, the global leader of Major, Lindsey & Africa's law firm practice and the author of a report on the results, says the concept that there's a homogenous "Big Law" partnership experience is a misperception. "In reality, you have the haves and the have-nots—or in this case, maybe the have-not-as-much— and the future for these two groups looks very different," Lowe says.

Among the survey's findings:

- While the average compensation for all respondents was up 5 percent, to \$716,000, respondents on the higher end of the scale skew the averages. Median compensation for all respondents was \$475,000.
- The average partner hourly billing rate was up 4 percent from two years ago, to \$608. Partners in every practice area reported higher billing rates in 2014, with intellectual property showing the greatest increase, up 10 percent, to \$662.
- The average male partner (\$779,000) continues to make considerably more than the average female (\$531,000). The 47 percent pay gap between the genders remains essentially unchanged from two years ago.
- Although the average compensation for black partners was up 17 percent, to \$574,000, it still fell well short of the average for white partners, \$734,000. Forty-three percent of black partners said they were "not very satisfied" or "not at all satisfied" with their compensation, compared with 19 percent of whites.

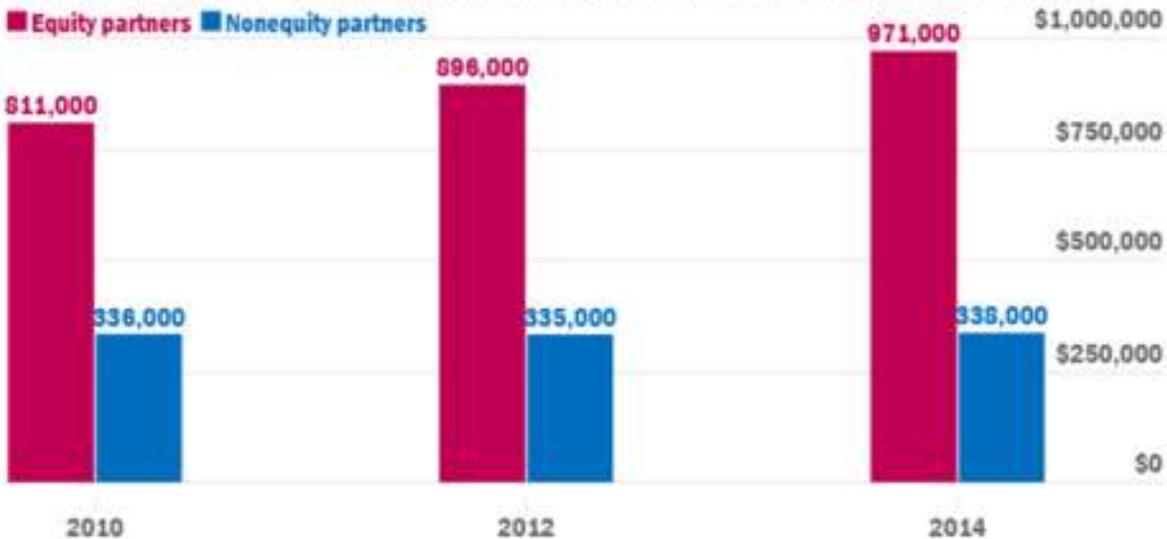
- Partners in open compensation systems reported significantly higher average compensation (\$843,000) than those in partially open (\$574,000) and closed compensation systems (\$484,000).

This year’s survey was conducted for MLA by ALM Legal Intelligence. The survey was sent by email to 43,816 U.S. partners at firms that have appeared in recent editions of The Am Law 200, NLJ 350, or Global 100. The survey asked partners to anonymously provide demographic information along with their pay, originations and billing rates. About 4.9 percent of partners surveyed—2,094 total—chose to participate.

The growing gap between equity and nonequity partner pay mirrors the disparate amount of business the two groups of partners bring to their firms. “The correlation between originations and compensation is getting stronger,” says Alan Olson, a law firm consultant at Altman Weil Inc. Olson says firms are “rewarding and investing in those partners that can develop and maintain a remunerative legal business.”

Equity partner pay versus nonequity

While pay for equity partners has risen nearly 20% since 2010, nonequity pay has remained relatively flat.



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Average equity partners originations were up 7 percent from two years ago, to \$2.81 million, while nonequity partner originations fell by 6 percent, to \$670,000. MLA’s Lowe notes that this year’s survey marked the first time average equity partner originations were more than four times higher than those of nonequity respondents. Median originations for equity partners—

\$1.65 million—was similarly 3.7 times higher than the median for nonequity partners, \$450,000.

Milton Regan, the codirector of Georgetown Law School's Center for the Study of the Legal Profession, says that firms find themselves paying ever-increasing amounts to partners who can win and keep clients, especially since the demand for legal services has been slow to pick up following the global financial crisis. The pressure to pay business generators is compounded, he says, by the active lateral market, which makes it easy for partners with substantial books of business to find suitors willing to pay them more. Service partners who don't originate much business, by contrast, don't have the same sort of lateral options, he says.

Law firm consultant Brad Hildebrandt says many firms looked at the nonequity ranks as a way to increase leverage, but they've turned out to be a high-cost way of delivering legal services. "You've installed a higher-cost group of people that you're not getting the return you should on," he says. He says clients often complain to him about firms that have large nonequity tiers that are paid too much.

That said, Hildebrandt says nonequity tiers can work for firms that use them as a way of transitioning young partners from associates who bill on matters to partners who win clients and manage matters. It gives firms a little longer to see if an individual has what it takes to succeed as an equity partner, he says. Firms get into trouble, he says, when they crowd the nonequity ranks with partners who have been stripped of equity. "When you deequitize people, you're taking partners who are problems in the equity partnership and thinking the problems will go away if you put them in the nonequity partnership. They don't," he says.

Kent Zimmermann, a law firm consultant with the Zeughauser Group, says there are reasons for firms to be concerned when nonequity partners become "grinders" who work on matters without being "finders" who bring in clients. He points out that many firms have stripped equity status from chronically underperforming partners since the financial crisis. But he says keeping those folks on as nominal partners increases the risk of creating a "class of underperformers that can drag the firm brand down and dilute what it means to say you're a partner in that firm."

Differing origination levels also partially explains the 47 percent pay gap between the genders. While the average originations for male partners increased by \$165,000 over the past two years, to \$2.195 million, the average originations for female partners fell by \$170,000, to \$1.24 million. Even with that gap, Natasha Innocenti, the leader of MLA's Northern California partner practice, found in a [corollary report](#) on the survey data that women are being paid less than men for comparable levels of originations.

Compensation and originations by gender

Male partners average nearly a quarter million dollars more than female partners.



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The Zeughauser Group's Zimmermann says the gender pay gap is "pathetic" and a "disgrace" to the profession. "Not only is it not right, it's also not good business," he says. He points out that studies have shown that gender-diverse legal teams produce better outcomes for clients than those dominated by males.

Arin Reeves, the president of consulting firm Nextions, says as long as originations are the primary factor in compensation decisions, women will be at a disadvantage. Her own research shows that women face much higher instances of bullying to share origination credit and are more likely to be denied credit when asking for it. She's advised women in professional service firms to develop business collectively with other women. "If three women develop a business together, they are less likely to be approached by someone for a piece of the business," Reeves says. She adds that if that group of women is approached about partial credits from a male partner, the dynamics are much different than they are when one male partner approaches one woman.

The Case for Transparency

Some of the survey's most surprising findings pit the pay and originations of partners in open compensation systems—those where partners can see what each other bill, originate and take home—versus those in partially open and closed systems. Average originations in open compensation systems—\$2.34 million per partner—were about \$1 million higher than those in partially open and closed partnerships. Open system partners took home an average of \$843,000 in compensation versus \$574,000 for those in partially open systems and \$484,000 for those in closed systems. Unsurprisingly, partners in open systems were most likely to

classify themselves as very satisfied with their pay—32 percent, compared with 20 percent and 18 percent of partners in partially open and closed compensation systems, respectively.

Altman Weil's Olson says that in closed compensation systems "dissatisfaction can arise, and it may not be detected as openly or quickly as in an open system." Still, he says many partners in closed systems advocate strongly that there is less time wasted fighting and worrying about origination credit than in open systems. Georgetown's Regan cautions against making too much of the results of the transparency breakdown, since closed and partially open systems are much less prevalent among large law firms, and partners in those firms might be reluctant to respond to a survey asking about compensation. Indeed, just 532 respondents said their firms had closed compensations systems and 268 partners said theirs were partially open, while 1,273 said theirs were open. Even with that caveat, Regan says open compensation systems do a good job of showing partners how they contribute to a common enterprise when managed well.

Arin Reeves of Nextions adds that transparency in compensation often correlates to transparency in governance and other firm matters—all things that give partners a sense of ownership. "When you get people to feel like the organization is theirs, they strive for higher levels of performance," she says. "When you make someone feel like a minion, you won't ever get their best."

The original article can be found on The American Lawyer's website at:

[http://www.americanlawyer.com/home/id=1202669931202.](http://www.americanlawyer.com/home/id=1202669931202)