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## Study Shows Single-Tier Firms Do Fine

But two-tier firms show stability, other benefits

Leigh Jones  
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Contrary to popular belief, two-tier partnership systems do not create higher profits per partner, according to a recent study by an Indiana University law professor.

The research, conducted by professor William Henderson of the Indiana University School of Law-Bloomington, found that profits per partner were higher in single-tier firms. However, the good news for the many law firms that have adopted equity and nonequity partnership structures in recent years is that they generally demonstrated more cohesiveness and stability among their attorneys.

The study, published in the latest issue of the *North Carolina Law Review*, found that the more profitable firms in their markets were those using a single-tier model. But the flipside was that firms outside the highest ranks were able to create better firm cultures by adopting two-tier structures, which can make them more profitable in the long run.

"I'm not making the claim that going to a single tier makes you more profitable," Henderson said. "I'm saying that it's a function of where you are in a market."

The report analyzed over a 10-year period the firms on the Am Law 200, an annual list published by *The American Lawyer*, a *National Law Journal* affiliate, that ranks the highest-grossing law firms in the country.

Among other things, it found that single-tier law firms with at least 50 percent of their attorneys concentrated in New York or in "global markets" had \$1.48 million in mean profits per partner, compared with \$1.1 million for two-tier firms with the same composition. At the same time, it concluded that single-tier firms with no New York or global attorneys had \$578,333 in profits per partner, compared with \$474,783 in two-tier firms.

The study also concluded that higher profitability of single-tier firms appeared to result from higher levels of prestige, which enabled these firms to maintain a more lucrative client base and run a more rigorous "promotion-to-partnership tournament." In addition, it found that law firms with nonequity partnership tracks were less likely to recruit aggressive new associates who were motivated to compete for full partnerships.

Although the study concluded that the financial advantages of two-tier structures are "uncertain" among most law firms, less prestigious firms that resist switching to a two-tiered system run the risk of lawyer defections and possible collapse. "There really is something to firm culture here," Henderson said.

Law firm consultant Robert Denney questioned the research. The figures regarding which type of structure yielded higher profits per

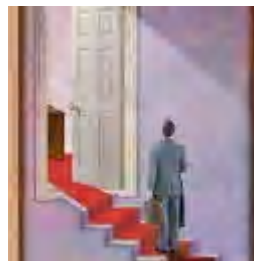


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partner were skewed, he said, because the study included the most elite firms, which adhere to the traditional single-tier approach.

However, Henderson said that the study controlled for the "New York elite" phenomenon and still found that single-tier firms generally earned more profits per partner.

<b>A TALE OF TWO TIERS AT LAW FIRMS</b>		
	<b>SINGLE-TIER</b>	<b>DOUBLE-TIER</b>
<b>PROFITABILITY</b>	Top performing firms in all markets yielded higher numbers.	Defied trend of segmenting partner tiers to boost per-partner numbers.
<b>LEVERAGE</b>	Less nonpartner help than two-tier firms	More nonpartner help did not equate to higher partner profits
<b>PRESTIGE</b>	Superior reputation of high-end corporate lawyers led to higher profits per partner.	Less lucrative client base. More recruiting challenges.
<b>PARTNER TRACK</b>	Associates billed 1.8 hours more per week on average.	Easier partner track may lower profits but may decrease attrition.
<i>Sources: Henderson report; The National Law Journal.</i>		