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Associate Salary War Moves to Midwest

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The associate salary war has spread from the coasts to the middle of the United States, with law firms boosting starting pay to stay competitive in a legal market where demand is mounting and the supply of top-notch first-years is waning.

Although law firms in the nation's middle regions are not matching the $135,000-plus salaries at the big shops on the East and West coasts, many are raising their beginning salaries in an effort not only to contend with other local firms but also to stake their turf where national firms have upped the ante.

"We have to stay competitive," said Mary Stuart, a recruiting partner with Denver-based Holme Roberts & Owen.

The 219-attorney firm earlier this year decided to increase compensation from $90,000 to $105,000 for the 15 to 20 first-year associates it expects to hire in September. Bonuses now range from $10,000 to $50,000.

Initially, the firm looked at what its local competition was doing, Stuart explained. But the decision to increase pay by 17 percent also took into account the firm's national competition, which includes Washington-based Hogan & Hartson's 51-attorney office in Denver, the 42-attorney Denver office of Baker Hostetler and Los Angeles-based Gibson, Dunn & Crutcher's 33-attorney Denver practice.

FEELING THE HEAT

Midsize firms such as Holme Roberts are mirroring -- on a proportional level -- the salary competition created by firms on both coasts, said Joel Henning, a director with Hildebrandt International, a professional services consultancy. But they also are poised to feel increasingly squeezed as mergers bring bigger firms into their markets and as law school enrollment declines.

The result will mean tougher challenges in enticing high-performing students from strong schools to join them, he said.

"Some of the midsize firms are beginning to simply punt," Henning said. "They're realizing that they can't compete at the top schools, so there's no need to pay top dollar." The good news, he added, is that the smaller firms can undercut their supersized competitors on price.

The first salvo launched in the recent salary war came from the West Coast last year, when midsize Los Angeles firm Irell & Manella and L.A. litigation firm Quinn Emanuel Urquhart Oliver & Hedges boosted pay to $135,000. Gibson Dunn became the first large firm to follow suit in December, and several major firms on the East Coast then fell into line.

Law firms in Chicago joined in, with Baker & McKenzie implementing a new scale, paying first-year associates a $140,000 base salary. Other Chicago firms raising salaries were McDermott, Will & Emery; Jenner & Block; Winston & Strawn; and Katten Muchin Rosenman.

The recent increases across the country were the first in about five years, when the last salary wars occurred.

The escalation reflects a demand among busy law firms needing more help. In 2005, gross revenue for the nation's 100 highest-grossing law firms rose to $51 billion, a 10.6 percent increase compared with 2004, according to *The American Lawyer,* an affiliate of *The National Law Journal.* Revenues per partner among those 100 firms climbed to $725,626, up 7.4 percent compared with 2004.

At the same time, law school applications dropped last year for the first time since 1997. Some 4.6 percent fewer people applied to law schools in 2005 than in 2004, according to the Law School Admission Council. However, on-campus recruiting for fall 2005 went up, according to the National Association for Law Placement, which found that half of the law schools nationwide reported an increase of 5 percent or more in the number of employers on campus.

REASSESSING RECRUITMENT

Looking for its own crop of fresh talent is Snell & Wilmer, which has a 196-attorney practice in Phoenix, its largest office. Lawyers starting this fall will receive $10,000 more than first-years in 2005, which brings starting pay to $110,000, in addition to a discretionary bonus, said hiring partner Robert Henry.

National firms in Snell & Wilmer's market include the 71-attorney Phoenix practice of Greenberg Traurig, the 66-attorney Phoenix office of Squire, Sanders & Dempsey and the 65-attorney office of Bryan Cave.

Henry said that although his firm makes its compensation decisions "based on a local market," he added that it considers its position relative to all competition in the Phoenix area.

"We're not ostriches," he said.

Firmwide, 426-attorney Snell & Wilmer hired 42 summer associates this season. In the fall, it expects to bring aboard 19 first-year associates to its Phoenix office. The firm has five other offices, mainly in the West.

Having to dole out more to associates who come from a smaller talent pool has prompted Snell & Wilmer to refocus its recruiting strategy, Henry said. The firm's demand for talent is strong, he explained, and like many larger firms, it is recruiting year-round and being more "creative and personal" in reaching out to potential hires.

Henry said that market forces also are requiring law firms to reassess the types of candidates they should pursue with their recruiting efforts.

"Every year we see an increase in demand from the large law firms for more students with certain types of qualifications and backgrounds, but we have not seen a commensurate increase in supply," he said. "This inevitably has caused law firms to change their historical approach to, and philosophies about, recruiting."

The rise in first-year associates often equates to an escalation in summer associate compensation as well. Cleveland-based Ulmer & Berne, with 174 attorneys, is boosting its first-year associate pay by $5,000 to about $95,000. Managing partner Kip Reader said that summer associate pay will increase proportionally.

Missing from the hiring equation, however, is the actual value of first-year associates, said Thomas Stewart, managing partner of 274-attorney Lathrop & Gage in Kansas City, Mo. His firm is raising first-year associate pay to $95,000 from $83,000, an increase of more than 14 percent. He attributes the escalation to the "trickle-down effect."

Firms in Missouri, Utah, Nevada and Iowa are affected by pay increases in Chicago, Houston, Philadelphia, Denver and St. Louis, which themselves are affected by raises in New York, San Francisco and Los Angeles.

FLAWED ECONOMICS?

But despite the stacks of money funneled to the young upstarts at firms across the country, the economics of it is flawed, Stewart said.

"It totally inverts the salary scale," he said. Ideally, first-year associates at midsize and larger firms should make much less than they do, so that as they become more experienced and able to make meaningful contributions to a firm's bottom line, a firm can compensate them accordingly.

"In a perfect world," Stewart said, "third- and fourth-year associates would earn about what first-years do now, which, in turn, would enable fifth- and sixth-year associates to receive compensation more in line with their contributions."

Because of the inverted salary scale, Lathrop & Gage, though it has grown from two to nine offices in the last several years, is hiring a relatively smaller number of new associates, Stewart said, and instead looking for more seasoned candidates.

"The real competition is finding laterals with two to four years of experience," he said.

Inflated first-year associate salaries also can lead to what Hildebrandt International's Henning calls a "diminution of the work experience" that new attorneys receive. In an effort to justify the higher pay, law firms make higher productivity demands on first-year lawyers, which leads to burnout, especially if a shortage of talent means firms are having to do more with fewer people.

"There's no free lunch," Henning said.