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Midsize Firms Prefer Open-Compensation Models

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While Big Law leaders and recruiters seem to agree that a closed-compensation model is the best fit for large firms, midsize firm leaders appear to have a very different philosophy.

The main argument for keeping compensation figures hidden is that doing so allows firms to avoid internal political backlash and partners' hurt egos. It also allows firms to make lateral hires on varying pay scales depending on market conditions without those new recruits feeling underpaid in comparison to existing partners and vice versa.

But many midsize firm leaders and experts believe that an open-compensation system is the best way to avoid conflict and maintain positive morale.

'GLASNOST' AND DEMOCRACY

"We have an open-compensation model, I would say, in that all partners are required to vote for the compensation schedule for equity partners," said Jeffrey J. Conn of [Thorp Reed & Armstrong](#) in Pittsburgh. "They're aware of it, obviously. They review it and vote on it."

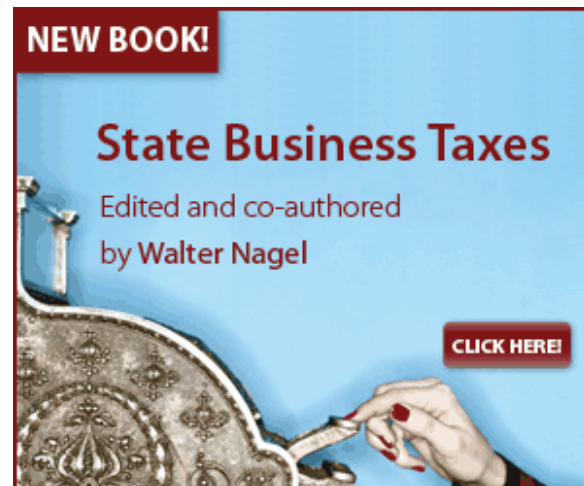
Conn described the system as "very open and democratic." "I think our partners feel as though if they're an equity partner, they should have as much information as they would like to see," he said.

David M. Kleppinger of [McNees Wallace & Nurick](#) in Harrisburg said his firm has a similar philosophy.

He said McNees Wallace makes compensation figures optional for any partner -- or member, in this firm's case -- to view.

According to Kleppinger, any member can request to see a list of compensation categories with the number -- and, if they ask for it, the names -- of the members in each.

"Our system is pretty open and communicative in that way," he said, adding that a great many of the firm's members choose not to view the information.



"Especially among the equity partners, we're as transparent as you can be," said Maury B. Reiter of [Kaplin Stewart Meloff Reiter & Stein](#) in Blue Bell, Pa., explaining that firm financials, including compensation figures, are available to any equity partner that wants them. "I'm a believer in transparency. I think people like to know that even if they don't take advantage of looking into the information, they have the opportunity to see what they want and have it explained to them."

Jeff Coburn, managing director of [Coburn Consulting](#) in Boston, said the closed-compensation model harkens back to the law firms of yore.

"The old style was to keep it closed and secretive and sort of opaque— and to some extent repressed," he said. "That was based on the fact that law firms back then were just individual partners, so that was fine."

But the makeup of most law firms today looks a lot different, he said.

"It's been more of a trend of the last 20 years to open it up in the spirit of having a firm that's more collaborative, more of a team concept, more of a collective, shared culture, which would therefore require more openness about everything including compensation," he said.

More and more firms these days, he said, have a "glasnost" philosophy when it comes to firm financials.

SECRECY AND JEALOUSY

One of the biggest objections to the open-compensation model stems from the fear that full disclosure of compensation figures will result in jealousy and dissent once some partners realize they're making less money than others.

But the consensus among midsize firm leaders and experts is that secrecy causes far more unrest within a firm.

Kleppinger said his firm's open system "eliminates speculation and rumor-mongering" with regard to who makes what.

Reiter agreed.

"If you let things go to people's imaginations, they tend to get embellished much more," he said.

Another argument detractors of the open-compensation model make is that disclosing the pay of a new lateral partner could potentially offend existing partners who may be making less, thus hindering firms' ability to take a chance and splurge on big talent.

But many of the firm leaders *The Legal Intelligencer* spoke to said that at their firms, existing partners have a say in the hiring of lateral talent after having the opportunity to review what the prospective hire's compensation would be.

"If we are going to ask for the members to vote on a new member, prior to that vote, we disclose the entire deal letter to the members," said Kleppinger.

And, Kleppinger said, if anyone disagrees with the final decision, they're welcome to talk to firm leadership about it.

"You may not necessarily agree with every decision that we make, but we want you to understand how we got to it," he said.

Clifford A. Goldstein, CEO of Valley Forge, Pa.-based Chartwell Law Offices, said equity partners at his firm know that there are "various deals" the firm makes with laterals that can affect new hires' compensation. These deals can be based on anything from the value of a new hire's book of business to the profitability of the branch the new partner is joining, he said.

Goldstein said he believes that divulging these details can actually lead to a better understanding among partners of why some make more money than others.

"It's important to be able to justify to your partners why you make X and they make Y, if there's a differential," he said.

Reiter said that by basing compensation mostly on productivity, his firm avoids the ire of partners who believe new hires are overpaid.

"We just don't make deals where we commit to pay people without taking into consideration what their actual

productivity ends up being," he said.

CANDOR AND CONFIDENCE

Kleppinger said he believes his firm's open system nurtures confidence in the firm's compensation model because it shows that firm leadership isn't afraid to share salary information with the rest of the partners. Coburn had a similar take.

"I believe that sharing the information among all the partners is in fact a statement of confidence in the trustworthiness of the whole system," he said.

But, he said, there is one catch: The system has to be trustworthy to begin with.

"The open system works if the compensation system itself is good," he said, adding that for the open-compensation system to work, the process by which compensation is determined has to be credible.

If it is, Coburn said, disclosing compensation figures to the partners becomes "a nonevent."

And for firms that use formulas to calculate compensation or that group their partners into separate tiers according to how much money they make, the likelihood of the open-compensation model offending anyone is significantly reduced, if not eliminated, Coburn said.

But a "double whammy of distrust" happens when firms hide ineffective compensation systems behind closed doors, he warned.

Besides, Coburn said, it's naive to think a closed-compensation system is really fooling anyone anyway.

"In those firms where it is secret like that -- hello, they all know," he said. "Do you think [when it comes to] the people who are doing these multi-gajillion-dollar deals, that people don't know how much they're making? Maybe they don't know exactly, but they have an idea."