

Analysis: Legal industry debates remuneration for associates

By Luke Cornish | Wednesday, 16 December 2009

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More and more firms, it seems, are trying to find the best way to reconcile remuneration models with currently louder cries for alternative billing methods.

The global financial crisis has forced clients in all sectors to either reduce external legal spend or find sufficient justification to maintain it. Law firms are now having to seriously look at alternative billing arrangements that keep them competitive and in line with client demand. Of course, if firms change the way they bill, they must also change the way they pay.

Against a backdrop of certain large international firms such as Reed Smith abandoning lockstep altogether, most law firms are finding it increasingly important to link their remuneration structures to the quality of employee contributions rather than merely the quantity and cost of hours billed. As Joydeep Hor, managing partner of [Harmers](#) Employment Lawyers, puts it: "The issue of billing has to tie in more closely with the issue of value for clients, and the issue of remuneration for staff has to tie in more closely with the issue of value to the employer."

Marque Lawyers, founded and run by managing partner Michael Bradley, has made a name for itself by abandoning hourly billing and, instead, negotiating a variety of different arrangements with clients usually on a retainer or fixed-fee basis.

"The thing to understand is if you're trying to run a pricing model that is detached from individual contribution then you have to structure your remuneration in a way that ties in with that, and that's the problem firms have with moving away from time costing," Bradley said.

"There's a very direct link between associate charge-out rates and what they get paid," Bradley said. "We've broken that nexus and we don't remunerate by reference to personal billables or personal fees – in fact, we don't report those things at all."

A Marque associate's remuneration is based not on what they charge out to clients but their performance as measured by the quality of their work and the quality of their relationships.

Bradley sees this as having two major advantages. The first, is that the billing method is aligned with clients' perception of value, something he says is conducive to strong long-term relationships. The second is that the remuneration model allows lawyers in the firm to manage their time more freely to develop client relationships and find the best ways to meet clients' objectives.

"As individuals it gives us enormously more flexibility in how we manage our own time and what we're able to invest in client relationships and in developing our business and that is incredibly liberating when you come from a timekeeping world," Bradley said.

Hor agrees that there is a fundamental problem with the time-based billing model in that it links in to arbitrary notions of budget and expectations of work hours without proper focus on quality of work being done.

"Too much focus is on hours and fees billed and that's a very outdated way of running any business and doesn't do wonders for the general public's perception and impressions of the legal profession," Hor said, adding that the answer is to link remuneration to more important measures of performance.

He says that the whole issue of remuneration modeling for lawyers needs to be focused on the quality of work that they are providing to clients. "There are any number of ways that you can do it that shouldn't directly link to the fees you bill from the client," he says but all of those involve moving away from the hourly billing model.

Piper Alderman managing partner Gordon Grieve, however, says that his firm does not remunerate across the board on lockstep despite the majority of its work being billed hourly.

"We have some portion of an increase in salary dependent on the number of years a person's out but generally salaries are negotiated on merit so it depends on that individual associate's performance as to what their remuneration is," Grieve said. "Those people are the ones that are in demand from clients and the clients are prepared to pay for them"

FCB Lawyers, meanwhile, looks to integrate individual performance and the firm's performance in regards to remuneration, which provides a bridge between the overall profitability of the firm and the value that associates provide to the client.

"Our system is designed to give people a broader focus and form a collegiate kind of team and organisational focus as well as making sure they individually perform so they are trying to support the culture we run as an organisation," FCB managing partner Campbell Fisher said. A number of his clients have been seeking alternative billing arrangements, most commonly on a fixed-fee basis.

With alternative billing on the rise, it will be up to law firms to find a way to link remuneration of associates appropriately to incentivise their staff while making sure they maintain their profit margins.