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Meet This Year's Bonus Babies

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LOS ANGELES — The party may be over for big-law associates.

Earlier this year, rumors were swirling that some elite New York firms were planning to raise the bar for first-year salaries to $200,000 by year's end, but economic slowing is dampening the prospect. As law firms face a slowdown in deal activity, associates at California's largest firms may have to hold tight at the $160,000 scale.

"It doesn't take a genius to figure out that a lot of deals in the pipeline are on the backburner or dead," said William Urquhart, a leader of Quinn Emanuel Urquhart Oliver & Hedges — one of the first firms to adopt the higher scale in California this year. "We had an incredibly long run of a hot economy, which created a high demand for associates. I think there will be a cooling."

Other firm leaders are also predicting a salary flattening, saying the market needs several years to absorb the impact of $35,000 in base-salary raises in less than two years.

"I'd be surprised if there was a significant deviation," said Brian Brooks, O'Melveny & Myers' recruiting partner. "I have heard some folks say the New York bonus market will be a little softer this year, and growth among most firms flat."

The Recorder's annual salary survey reveals most firms have adopted a similar lockstep scale for base compensation, but are showing some creativity when it comes to bonus structures. As base compensation appears to be stabilizing, associates say they're turning their interest to firm's bonus systems.

"That is what the big debate has been — what is the best bonus system," said O'Melveny's Luann Simmons, a senior associate who co-chairs the firm's associate advisory committee. "The debates are going on about this, and there are completely different views from associates."

A KINDER, GENTLER BONUS

Some firms like Pillsbury Winthrop Shaw Pittman capped first-year bonuses at $32,500 while other firms such as DLA Piper said first-year bonuses could go up to $50,000.

The range isn't the only difference; firms often have varied methods for calculating each associate's bonus, something that is being heavily debated right now at firms like O'Melveny.

Simmons, the co-leader of the firm's associate advisory committee, said the crux of the debate is whether it's better to have a lockstep model or a more subjective model. Currently, O'Melveny uses a hybrid that uses part objective criteria and part subjective assessments — such as citizenship — to calculate bonuses.

"Top performers love the West Coast model, which is more touchy feely," she said. "But the lack of an objective element leads to a breeding ground for associates to say, 'I bet I am getting screwed.'"

While O'Melveny's leadership is open to adjusting the system, Simmons said the challenge is finding consensus among associates, mostly since it depends on how the associate views themselves.

"It's so much easier if it's a formula, but top performers say that's crap," she said. "Our partners spend hundreds of hours trying to equitably distribute the bonus pool based on touchy-feely stuff."

WHERE'S THE VALUE

The move to a $160,000 starting scale in their California offices elicited strong reactions from some general counsel, who spoke out loudly against raises they feared would translate into higher billing rates.

And while associates applauded their bigger paychecks, some also voiced concern that higher salaries would quickly translate into increased billable-hour pressures.

"We're starting to see a trend afoot by several law schools where students are saying, "I don't want to work 2,500 hours and make 160 — can we do something about it?'" recruiter Delia Swan said.

Some associates who initially feared their base raises might result in more hour requirements say those fears seems to have been quelled for now, as firms have kept hour requirements stable.

But the increased compensation still raised interesting implications, said Geoff DeBoskey, the associate who leads Sheppard Mullin Richter & Hampton's associate committee.

"I think they signal to associates that the law firm needs to obtain value for the high amount associates are now receiving. The economics have to work out and people realize that."

Associates have also discussed the effects of having law salaries so much higher than other private-sector entry-level jobs. DeBoskey agreed there are young associates who view firm life as a short-term prospect, as a way to garner quick savings and get out.

For law school recruits overwhelmed by myriad firm choices, not matching the going rate is something top law firms don't want to risk.

"If you're a law firm and you're 10K less, that makes meaningful difference to recruits," DeBoskey said. "It's essential for law firms to be at whatever market is."

Still, DeBoskey said the salary increases reinvigorated discussion on what firms can do nonmonetarily to distinguish their firm.

FIGHTING THE TIDE

And for the firms that choose not to follow this year's trend, there are some advantages.

"Some firms are coming out boldly and saying we're not going to do it, we're going to stay at 145, we're not going to kill associates and we're going to keep GCs happy," recruiter Swan said.

And that GC backlash is creating more opportunity for middle-market firms, once doomed for extinction, she said.

Manatt, Phelps & Phillips is one of the California firms surveyed who managed to stay at 145 this year, despite mounting pressure from its competitor firms.

That's because Manatt felt one raise per year was enough, leader William Quicksilver said: "It doesn't seem to be an effective way to run a business, if every time you feel a firm raises you have to respond or jump."

But since the firm is committed to matching the market, Manatt decided to make a $160,000 starting scale effective in January 2008. They haven't seen any recruitment fallout, Quicksilver said, adding "we haven't sacrificed quality."

Despite the unenthusiastic economic outlook, there's still a glimmer of hope for associates that New York could move again in hopes of distinguishing itself from the rest of the country.

"There's been a lot of talk of whether the New York firms will jump to 200 — they're trying to stand out from the crowd and the crowd wants to gather around," Swan said.

But the ongoing challenge is for the crowd to figure out what their recruiting market is, said O'Melveny's Brooks. For an elite group of New York firms, the market can overlap with hedge funds, a group often much higher paid than big-firm lawyers.

In this current period of volatility, the only thing that's certain, Manatt's Quicksilver said: Associate salaries won't be going down.

"My crystal ball isn't that clear," he said. "But, before all law firms increase to 200, they're going to have to look at attracting and retaining associates and ask: Is this really the best way to proceed?"