



**NALP 2011**  
**Annual Education Conference**  
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**How is that performance-based compensation system working for ya?**

David Cruickshank, KermaPartners  
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 Siobhain McCarthy, Paul Hastings  
 Laura Saklad, Orrick




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**Background: Two Systemic Problems**

**Associate Compensation**  
 The recruitment imperative ("cannot be seen to be second tier") entrenches lockstep compensation and produces untenable economics for many firms

**Advancement to Partner**  
 Lockstep and hours-based programs do not reward development of the multiple skills and investments that we seek from partners. Inflexibility of hours and steps makes it difficult to create customized career paths.

Courtesy: Firm Leader

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**Associate Transitions**

**Generating Business** (P)

Knowing How to Add Value (4)

Committing to (3) the Practice

(2) Delegating & Supervising

(1) Taking Ownership

Courtesy: Firm Leader

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**Option 1: Lockstep (NY) plus Standard Bonus for All**

Class	Base	Level	Full Bonus	Half bonus
• 2010	160,000	1	35,000	17500
• 2009	165,000	2	35,000	17500
• 2008	170,000	3	40,000	20000
• 2007	185,000	4	45,000	22500
• 2006	210,000	5	50,000	25000
• 2005	230,000	6	55,000	27500
• 2004	250,000	7	60,000	30000
• 2003	265,000	8	60,000	30000
• 2002	280,000	9	60,000	30000

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**Option 2: Lockstep (Market) plus Bonus (Variations)**

- A. Bonus eligibility floor (1800 - 2000 hours); other hours levels for bonus
- B. Merit bonus component (not all lockstep bonus); often combined with escalating hours targets.
- C. Freeze or unfreeze the steps (hold 2009 base salary through 2010; unfreeze in 2011)
- D. Some associates put on a separate career track

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**Option 3: Lockstep (market) plus Performance Bonus**

- A. Bonus eligibility floor (1800 + hours); some have no min. hours for bonus
- B. Bonus is 100% performance (but hours can creep back in)component.
- C. Bonus factors are defined, but are a work-in-progress; not necessary to have competencies
- D. Some associates put on a separate career track

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**Option 4: Lockstep Two Years, then Individual**

- Meet the base salaries in the market, years one and two; some small merit bonuses
- In year three, you move to individual compensation based on:
  - practice group
  - billing rate
  - economics of the practice in that market
  - firm investment
  - your development
- Not transparent to associates, but permits better controls

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**Option 5: A Levels and Promotion System for Advancement and Compensation**

Promotion Window	BASE	BONUS
Y0		JUNIOR
Y1		MERIT BONUS
Y2	\$160,000	MERIT BONUS
Y3		MIDLEVEL (Managing Associates)
Y4		MERIT BONUS
Y5	\$185,000	MERIT BONUS
Y6		SENIOR
Y7	\$250,000	MERIT BONUS
Y8		PARTNERSHIP CONSIDERATION

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**Competencies and Client Services**

Key to unlocking the power of competencies is to understand they are a **MANAGEMENT** tool – a way to continuously improve, expand, and manage delivery of services to clients

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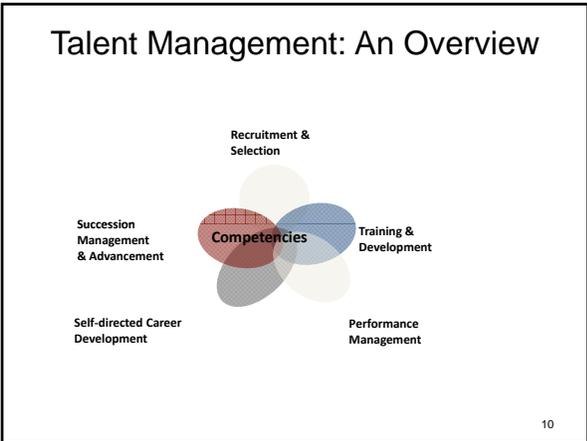
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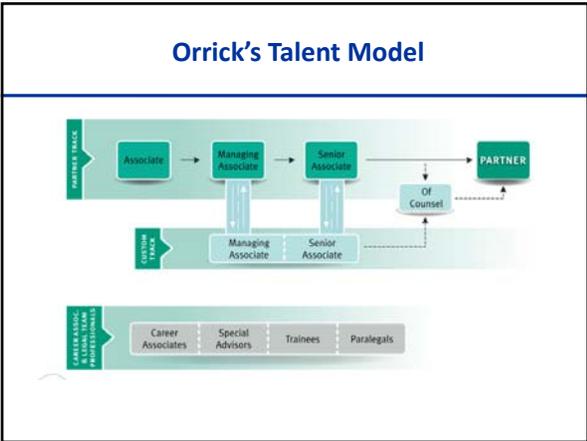
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### Orrick's Merit-Based Compensation Structure

	2010 and 2011	
	Base Salary	Total Comp Potential with Bonus
Senior Associate	\$ - \$	Up to 2% over defined competitive market <sup>1</sup>
Managing Associate	\$ - \$	Up to 9% over defined competitive market
Associate	\$	Up to 3% over defined competitive market
	\$	
	\$	No Bonus

<sup>1</sup> both base salary and bonus practices among peer firms considered when defining the competitive compensation market.

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### Orrick's Bonus Criteria

- Work Quality (review performance rating)
- Hard Work
  - Productivity and Efficiency
- Practice Group Contribution
  - client relationship contribution, business generation
- Contribution to the firm
  - recruiting, diversity, knowledge management, associate development, pro bono, teamwork, etc.

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### Orrick's Implementation Timeline

- 2007 – Introduced practice specific performance benchmarks
- Jan 2008 – Launched talent model redesign
- January 2009 – Internal release of new model, advancement criteria and aligned benchmarks
- July 2009 – Placement of associates in talent model roles (shared internally and externally); introduced enhanced mentoring program
- July 2009 – Launched Custom and Career Associate tracks
- Fall 2009 – Introduced revised performance evaluation process aligned with advancement criteria
- January 2010 – Implemented merit- based compensation: 2010 base and 2009 bonus
- January 2011 – Implemented new 2011 salary scale and revised 2010 bonus program

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### Merit Based Compensation: The Importance of Guiding Principles - I

- Compensation system should be transparent and understandable to associates and partners
- Total compensation should be tied to role and performance rather than class year
- Overall compensation should balance the risk of participating in a “non-lockstep” system with potential for top performers to earn over market
- A greater percentage of compensation should be variable (bonus based), at the more senior levels

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### Merit Based Compensation: The Importance of Guiding Principles - II

- Productivity should be a measure of contribution but hours targets should not be determinative
- Practice Groups should have discretion in allocating bonus dollars to reflect the relative contribution of each associate
- We should maintain firm-wide oversight of compensation to ensure fairness and consistency across practice groups

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### Connecting Competencies to Advancement and Compensation

- Competency “maps” differ
- All promote increasing mastery, new skill development
- Connect to what clients value
- The professional development mission

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### Orrick: The Foundation for Merit-Based Advancement

•Orrick’s Criteria for Advancement

Core Competencies: BEING A LAWYER SECOND TO NONE:		
Criteria for promotion to Managing Associate	Criteria for promotion to Senior Associate <i>All criteria for Managing Associate plus...</i>	Criteria for Partnership Consideration <i>All criteria for Managing Associate and Senior Associate plus...</i>
<b>Analytical thinking/problem solving</b> • Integrates large volumes of data into a logical and coherent structure for analysis and review. • Readily identifies significant legal issues. • Analyzes problems from various perspectives and quickly spots new trends, potential problems, and opportunities. • Identifies and suggests workable solutions to problems under conditions of uncertainty and ambiguity	<b>Analytical thinking/problem solving</b> • Analyzes voluminous or complex information and legal principles, identifies key issues, and judges the value of different approaches. • Is relied on by others to use good judgment when making independent decisions. • Assists more junior associates in interpreting ambiguous information. • Recognizes business and legal trends that impact the client.	<b>Analytical thinking/problem solving</b> • Constantly reinforces the need for well thought out recommendations based on facts, sound legal analysis and research. • Identifies legal and business trends and patterns that are relevant to the problem. • Identifies and helps to quickly resolve ill-defined, complex problems. • Demonstrates the vision and imagination to anticipate client problems and develop superior solutions.

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## Skills Lawyers Lack

	Associates	Partners
Understanding of Client's Industry	90%	51%
General Management	75%	45%
Understanding of Client's Strategy	70%	45%
Understanding of Business Jargon	65%	37%
Legal Skill	0%	0%

- Pinpoint Consulting

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## Increased Client Loyalty and Satisfaction

Law firms that are better focused on *retaining the talent* and rewarding the skills that are valued by clients;  
*training* at law schools and law firms that develops the needed skills;  
and *matter management* that is driven by client expectations and needs.

- Association of Corporate Counsel Value Challenge

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## The Way Forward

**Clearly the best way for companies to win the talent wars is to turn themselves into learning organizations**

- The Economist

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## Presenter Information

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