

# LAW FIRM COMPENSATION

SLICING THE PIE



## BLOG ARTICLE

*Slicing the Pie: Paying Originators,  
Managers and Workers*

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Law Firm Performance Improvement Experts

*Getting compensation right in small and mid-sized law firms is challenging. This is especially true when several attorneys are responsible for handling a particular client's work. Determining the amount of credit to share can be a tricky process.*

Law firms need to *update*  
their traditional compensation systems  
*to better match*  
the needs of today's legal market.



In this series, we highlight the **four** main roles that contribute value to client relationships that should be considered when developing law firm compensation systems.

Rewarding all attorneys who bring value to a client relationship creates a more favorable work environment, improves client service, and leads to a better-developed law firm.

**A structured  
process helps  
law firms  
compensate  
lawyers fairly.**

***Blog Article:***

***Slicing the Pie:  
Paying Originators,  
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## ESSENTIAL ELEMENTS TO INCLUDE IN YOUR LAW FIRM COMPENSATION PLAN

Most law firm compensation systems need to consider the total contribution of their lawyers. Subjective contributions aside, at a minimum, your compensation system should consider these four objective factors:

1. **Originations** - bringing in new clients
2. **Client/File Manager** - managing the client relationship at the file level
3. **Workload Manager** - managing and training other timekeepers
4. **Worker/Producer** - working the file and providing legal services

Most law firms only pay attention to Originations and Production, neglecting the importance of managing client relationships and other timekeepers. By valuing all four roles, firms increase profits, benefit client relationships, and incentivize collaboration. It's time to rethink traditional inadequate compensation structures to meet the demands of today's legal market.



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# HOW DO WE COMPENSATE OUR ATTORNEYS FOR ORIGINATING CLIENTS?



In our experience, only about 20% of lawyers in private practice are consistently successful in attracting new clients. This places immense importance on nurturing relationships with individual rainmakers. Regarding compensating these invaluable originators, market trends indicate that offering 15% to 25% of gross fee collection is the norm. Firms that use profitability-based systems will make an equivalent adjustment and split profit.

Law firms that emphasize team or brand-based marketing strategies must provide additional incentives to motivate attorneys to contribute to the overall growth of the system. These contributions may include generating high-quality content, participating in speaking engagements, and building professional networks. By incentivizing these activities, firms foster a collaborative environment that promotes the team's success.





# LAWYERS WHO MANAGE CLIENT FILES THEY DID NOT ORIGINATE ARE OFTEN UNDER-APPRECIATED

When it comes to managing client relationships at the file level, the efforts of lawyers who work and oversee files directly with client personnel should be considered. Recognizing and enhancing these efforts can significantly boost morale, improve client service, and lead to a better-developed law firm. Similarly, lawyers who handle assigned cases from others should treat these clients as if they were their own. Assuming this basic agreement is met, we suggest that the client/file lawyer receive up to 20% of the credit in the reward system.



# WANT OPERATIONAL EXCELLENCE AND BETTER ASSOCIATE PERFORMANCE?

## ***Compensate Experienced Attorneys for Fees Managed***

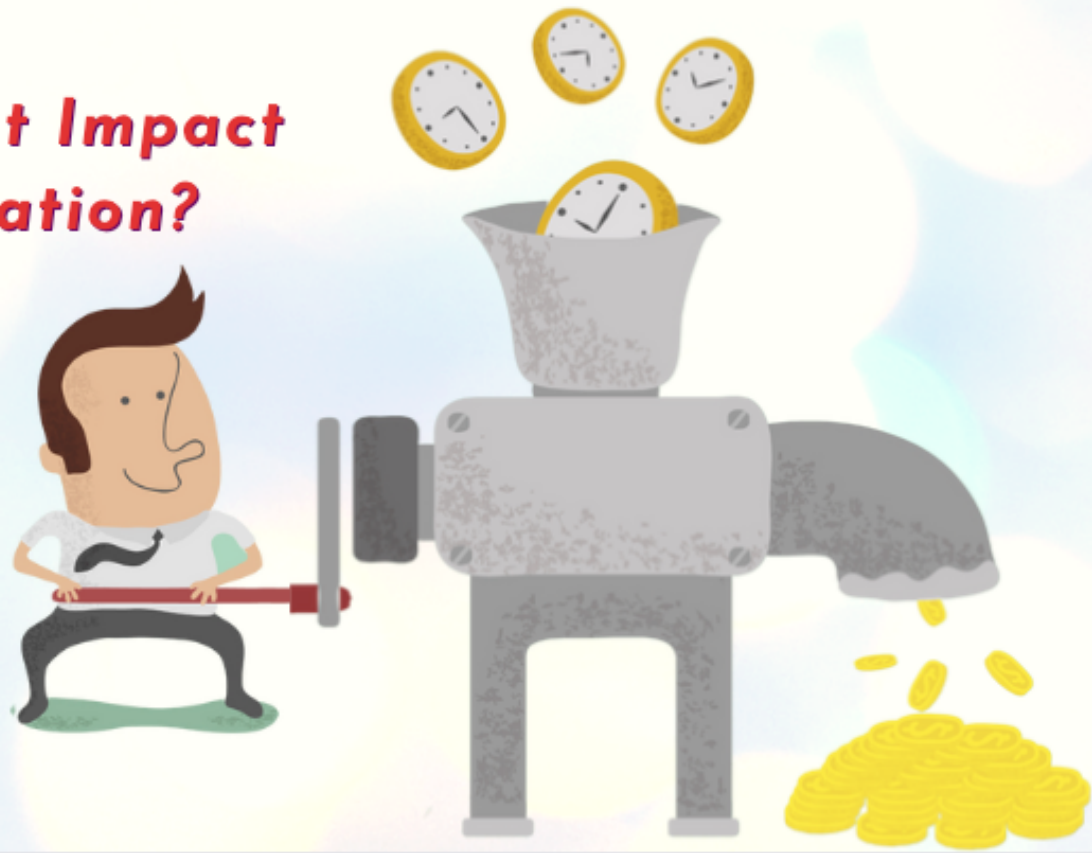
The legal industry faces a challenge in dealing with a scarcity of proficient associates and soaring turnover rates that are becoming the norm. This problem can be attributed to several causes, one of the main factors being the shift from hiring young lawyers to more experienced ones. Clients have also contributed by instituting minimum experience requirements for their files.

To tackle this issue, we recommend firms adjust their compensation systems to acknowledge the expertise of senior lawyers who supervise teams of associates. This is done by incorporating metrics that reward experienced lawyers for the fees their supervised junior associates generated, *regardless* of who originated the files. Their responsibilities include training and overseeing associates, as well as the management of files and billing.

Although some firms may use different terms to quantify the fees managed, the main goal is to foster operational excellence, manage workloads, and maximize profitability for the overall team. This creates a favorable environment, rewards the contributions of experienced attorneys in the long run, and allows the firm to manage younger lawyers and turnover better.

# WHAT IS WORKING ATTORNEY CREDIT?

## *How Does It Impact Compensation?*



Working attorney credit refers to the dollar value of revenue generated from personal production. For instance, if an attorney records \$10,000 in time dollar value, which is then billed and collected, they will receive production credit for that same amount. Production credit is earned regardless of who originates a client or matter.

Employee lawyers typically receive a base salary and a bonus for their efforts as working attorneys. Hourly and contract lawyers usually receive an hourly rate or a portion of the fees. Factors such as production credit, experience, and expertise are most important when compensating working attorneys. Equity owners also receive compensation for their working attorney production, albeit usually through a compensation system that may or may not directly attribute pay to timekeeping.

# Comparing Your Firm's Attorney Compensation to Market Standards:

## HOW TO FIND THE RIGHT BALANCE

When it comes to market pay, the compensation for working attorneys typically falls within the range of 25% to 40% of their gross fees. To evaluate your firm's compensation structure for non-owner lawyers against the market, it is advisable to categorize salaries based on bar year (experience) and compare them to these ranges. It is generally recommended that compensation should increase with experience, although there can be exceptions in every firm. It is important for firms to analyze any inconsistencies they may find objectively. We suggest that firms strike a balance between market standards and their compensation strategy.

It's important to mention that the compensation for equity owners who work as attorneys may not align easily with these ranges. The amount of compensation available for equity owners is heavily influenced by firm profitability. Nevertheless, these market-based percentages serve as a reasonable guide to assess the competitiveness of your firm's compensation outcomes.





## *What is the best way to slice the pie?*

Attorneys play crucial roles in adding value to client files and enhancing the profitability of law firms. When our law firm clients place a value on the four roles stressed throughout this series, they almost always find increased firm profits, enhanced client relationships and incentivized collaboration among attorneys.

*Reach out to PerformLaw today to build a compensation system that will support the long-term success of your law firm.*

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