

New this spring: bonuses for associates?

By Gina Passarella / The Legal Intelligencer

Spring bonuses. Feel free to ponder that phrase for a moment. It's a new one.

It wasn't long ago that some large law firms were financially unable, or unwilling, to pay year-end bonuses to associates, thanks to the recession. Now, some of them are doling out two sets of bonuses to reward the associates who survived the cutbacks of 2008 and 2009.

These supplemental bonuses, given on top of year-end associate bonuses, began in New York and largely stayed there over the past three months. But Dechert LLP, headquartered in Philadelphia, got into the fray last week when it announced it would give out spring bonuses on the same scale as the highest bonus-paying New York firms.

This leads to the question of whether other Pennsylvania firms will follow suit. The state's largest firms -- K&L Gates, Reed Smith and Morgan Lewis & Bockius -- either declined comment or didn't respond to a request for comment on the issue.

New York-based recruiter Jerome Kowalski said the concept of spring bonuses "is a brand new phenomenon."

"Like so much else having to do with associate compensation, it was instigated by Cravath," he said.

Cravath Swaine & Moore actually wasn't the first firm to announce spring bonuses or even the second. The first was Sullivan & Cromwell, but Cravath upped the ante with a higher bonus scale, and the firms that announced bonuses after Cravath seemed to follow its model -- including Dechert.

Cravath paid spring bonuses ranging from \$2,500 for the class of 2010 to \$20,000 for the class of 2006 or earlier.

"And then like the old dominoes, one firm after another capitulated," Mr. Kowalski said.

The instigating force that spawned these new bonuses, he said, was most likely "some small measure of guilt" because firms leaned very hard on associates after cutting back staff and lawyers. Many firms, including the ones that had a small reduction in gross revenue in 2010, saw an increase in profits and decided to share some of that with the associates, he said.

The other motivation is to keep associates at the firm, Mr. Kowalski said. The lateral market is picking back up and competition could increase.

Regardless of firms' motivations, these bonuses are "a form of golden handcuffs," he said. When associates have had enough and are getting ready to leave a firm, they typically wait until after they receive their year-end bonuses. Law firms began pushing back those payouts until January or February, "chaining associates to the desk for a couple of months," he said.

"One very much intended consequence, I believe, of these spring bonuses was to keep those chains in place for at least another few months," Mr. Kowalski said.

Bonus increases don't necessarily equate to salary increases, he said, at least not in Pennsylvania. There is no need for the state's firms to push salaries back up because there is no market need to do so. No one is walking into the office of a large Philadelphia firm, for example, and saying he or she is going to leave to work for Cravath unless salaries are increased, Mr. Kowalski said.

That being said, Mr. Kowalski said it wouldn't surprise him if other Pennsylvania firms followed Dechert when it comes to spring bonuses.

Frank D'Amore of Attorney Career Catalysts said whether firms follow Dechert will be a real lesson in what firms learned from the recession.

"I don't know if it's going to be a one-time phenomenon or whether or not this will become a pattern," Mr. D'Amore said.

Firms learned tough lessons during the recession, he said, but if they begin to play follow-the-leader when it comes to spring bonuses, it may show things are just going to go back to the way they always were, he said.

Dechert, Morgan Lewis, K&L Gates and Reed Smith are the four Pennsylvania firms most prominently on the international stage, Mr. D'Amore said.

The state's firms that are more national or regional in scope may "get right back in that whole rat race again" when it comes to associate compensation or they may take the lessons learned from the recession and choose not to chase the other firms like they have in the past, he said.

"With less focus on entry-level hiring, how relevant is all of this stuff?" Mr. D'Amore asked. "And with bonuses tied more to performance, really how significant is it to jump up and match what Dechert does?"

While it may not make sense for some firms to pay out spring bonuses, spreading out bonuses over a longer period could be a good retention tool, he said. As Mr. Kowalski suggested, Mr. D'Amore said associates are similar to partners in that they wait for distributions or bonuses before jumping ship. If those bonuses were spread out over four payments throughout the year, it would be tough for them to find a time to leave, Mr. D'Amore said.

Lori Carpenter of Carpenter Legal Search in Pittsburgh said her firm hasn't heard a word about spring bonuses in the city. She chalked it up to Pittsburgh firms being more conservative.

"I don't think that we see people trying to retain talent in Pittsburgh based on bonuses," Ms. Carpenter said.

For Steel City firms, it's more about the quality of work and the quality of life that keep people where they are, she said.

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