Salaried Partnerships: The Good, the Bad and the Ugly

By Sean Larkan

The 2012 Edge International Global Partner Compensation System Survey highlighted that appointments of salaried partners are increasing. These are lawyers appointed partner and paid a fixed amount in money or an amount of money based on a fixed percentage share - sometimes termed "fixed equity". A majority of surveyed firms use the salaried partner regime and the trend is anticipated to continue.

I favour the salaried partner regime provided it is properly introduced and managed. It can be a powerful financial engine of a firm, building a strong foundation for future success - motivated young lawyers, providing for leadership and partnership succession and encouraging the right behaviours.

The GOOD - salaried partnership:

1. is an obvious way to recognise high performing lawyers - sending a positive signal & building confidence;
2. is a good testing ground before progression to equity;
3. is a chance for lawyers to find their feet while experiencing a form of partnership first-hand;
4. provides status - sometimes important to the individual and for clients;
5. can be an ideal alternative to equity partnership for those who for personal reasons don't seek equity;
6. is good for lawyers who won't meet equity performance criteria but are otherwise outstanding;
7. is ideal when it may be difficult or 'impossible' to appoint equity partners, but where you want to keep and motivate someone;
8. provides a realistic buffer to poaching firms and a counter to lawyers leaving for greener pastures.

The BAD and UGLY - all this can come unstuck if the salaried partner regime is not used or implemented effectively - to the detriment of those partners, the equity partners and the firm as a whole. For instance:

1. salaried partnership simply used as a blockage to equity; and
2. salaried partners are partners in name only.

The consequences: salaried partners:

1. become seen only as a "necessary evil";
2. become marginalised within the firm;
3. become an isolated, disgruntled, underperforming group and serious veins of mistrust develop within the partner ranks; this directly impacts self-esteem - a no-win situation for everyone concerned - a vicious circle in the making;
4. as they realise they are not truly 'partners' it creates distrust, lack of respect and ultimately, lack of loyalty - in the heart of the partnership group. Hard to imagine that a partnership governance structure would knowingly do this;
5. learn the same poor values and bad behaviours which does not bide well for the future long-term success of the firm; and
6. who are top performers, will see the writing on the wall early, and leave; the regime becomes a holding ground for mediocre, disgruntled performers. The vicious circle is complete.

Back to the GOOD: **the solution**

It is possible to turn the salaried partner regime into a positive part of a firm;

- be frank about why you're using your salaried partner regime - even if the reason is to retain equity tightly. Salaried partners will respect this. Good ones will compete to earn some of that tightly-held equity;
- be upfront with an aspiring partner who has no realistic chance of becoming an equity partner;
- treat them as partners in every sense, possibly with limited exclusions around sensitive equity partnership discussions and information, and decisions on admission, progression and exits;
- treat them with respect (as if they are truly your future leaders and owners);
- make it clear they are expected to behave and perform like partners in every respect and meet the same performance criteria (albeit at slightly lower levels).

Do this and you will be rewarded in spades. You will also have a happier partner group. I would go even further; any firm that does not have this system functioning successfully will find it very hard to compete with others that do. It is time to ensure any bad or ugly elements of your salaried partnership regime become good.

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