In part one of this article, I outlined the array of skills and experience that law firms must consider when admitting lawyers to partner status. These include work and service quality, marketing activity, professional development, management ability, personal attributes, as well as a deep investment of time in honing skills and developing mastery. As important as each of these areas is, none is more fundamental than the ability to develop new business.

Partnerships are viable and sustainable only if there is a consistent and sufficient earnings stream to attract talent to the firm. This is accomplished when all timekeepers are personally productive and profitable.

**Economic Contribution**

The historic, and still primary, law firm business model requires all timekeepers to work hard producing fees. There are some other successful business models for law firms in place and under development. But if your firm follows the mainstay of selling time, then attention to fee production through billable hours is important. Thus, a lawyer who desires partnership must have a record of sustained profitability and productive use of her/his time. While a lawyer may contribute in more ways than simply recording billable hours, the following guidelines for typical annual billable hours are a vital prerequisite.

- **Equity partners** – 1,700 to 1,750
- **Income partners** – 1,675 to 1,725
- **Senior associates** – 1,800 to 1,850

Total hours, which include billable hours plus all the other meaningful time a lawyer contributes each year such as promotion/marketing, management, teaching/mentoring, client development, training/CLE and the like, should be sustained in the range of 2,200 to 2,500.\(^1\) How the additional hours are used varies based on the individual’s role in the firm. But each lawyer should expect to contribute in each category.

\(^1\) This figure comes from studies that show that professionals contribute 50 to 55 hours per week towards their careers. Averaging 60 hours per week happens with sufficient frequency to be noted, which suggests 2,700 total annual hours. Annual hours are based on approximately 45 productive workweeks in a year (52 less four for vacation, two for holiday and one for personal).
Annual fee receipts generated, as a working lawyer, should be in the range of:²

- **Equity partners** – $600,000 to $625,000
- **Income partners** – $500,000 to $525,000
- **Senior associates** – $450,000 to $475,000

A senior associate should be profitable for the firm, earning $125,000 to $150,000³ for her/his law firm.

This section and the accompanying footnotes provide sufficient detail for each firm to adjust these guidelines for their market and culture with respect to annual billable and total hours, hourly rates, realization, compensation and overhead. Using both actual performance data and budget data provides useful comparisons.

Equity partners earn most of their income. Associates create additional income opportunity by being profitable. Profit margins in the range of 25% to 35% are appropriate for senior associates.

Income partners generally do not bear the risk of compensation loss or capital contribution, but they also generally do not share in the upside potential like equity partners. Firms generally pay income partners better than senior associates. In certain circumstances an income partner may be paid a bit more than the remainder from their fee receipts less overhead. This higher than pure economic pay may reflect the modest amount of business they generate, client portfolios and relationships they manage, the mentoring and training they provide younger associates or possibly an allowance for some additional upward opportunity in the later years of their career.

Essentially, the income partner is recapturing a portion of the profit margin previously available to the equity partners when the individual was a senior associate. Profit margins in the range of 15% to 20% for income partners as a group are common, with individual expectations varying based on the circumstances. How this is handled is, of course, a decision each firm must make.

**Capital Contribution**

Part of the equity owner admission process is the buy-in and accumulation of capital. All equity partners should contribute working capital to the law firm. The profession’s standard to determine buy-ins is to value the firm on the cash basis book value of the firm at year-end and calculate total capital requirements based on the

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² Rounded using hourly billing rates of $295 for senior associates, $350 for income partners and $400 for equity partners and realization rates of 86% to 90% (above the average 84% because senior practitioners are generally considered a better value and more experienced such that there is less price push back and fewer inefficiency adjustments).

³ Rounded profit after subtracting $160,000 to $185,000 in total compensation (total cash compensation plus employer provided benefits and payroll taxes) and $135,000 in per fee-earner overhead.
working capital and investment needs of the firm. Note this excludes the value of unbilled time and fees receivable.

An associate should be told about capital contributions well before consideration for partnership. Buy-in is generally not overly burdensome, but it is not immaterial either. One should expect a capital requirement in the range of 20% to 30% of partner profits as an average, however, many firms exceed these levels, some by significant amounts⁴. Some firms will self-finance or arrange for a bank credit facility to assist partners in managing their capital commitments. The amount of required capital varies depending on the firm’s business model, growth and investment needs, partner comfort with financial leverage and credit market conditions.

**Business Development**

Business development is the single most important factor to sustain a viable law firm. Having this ability is the most significant performance differentiator between equity and income partners.

An associate may be promoted only to income partner absent a sufficient ability to develop, attract, retain and grow client relationships. When client generation is not the primary consideration, the lawyer must excel in other ways. Income partners must demonstrate an ability to manage, retain and grow client business, to supervise and train younger lawyers, or practice at a very sophisticated level to be considered for equity partnership.

Ideally, equity partners should be net exporters of work. That is, they must be able to keep themselves busy and provide work to others. This is the essence of the leverage model. The leverage model takes many forms depending on the nature of the work. And it exists unless one is a solo practitioner or simply sharing space with other solo practices (confederation models).

Thus a law firm should expect an equity partner to support the firm’s leverage. Consider a simple example in which a law firm has one associate for each partner. To meet this test a newly hired equity partner must generate sufficient client work to keep two lawyers busy – again for simplicity, her/himself and the additional lawyer needed to satisfy the one-associate-per-partner leverage model. If the new equity partner is a promoted associate than the firm must also hire a third lawyer to replace the leverage vacated by the promotion. And there needs to be sufficient work for that individual as well.

It may be acceptable to have an equity partner who is simply self sufficient (able to keep her or himself busy) with business relationships leveraged from existing clients and some developed independently in excess of the expected $450,000 to $475,000 fee receipts for senior associates. However there must be a high level of confidence

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⁴ The most common situation where capital would be significantly higher are for those firms that do not use bank borrowings to finance infrastructure.
of meeting the prior paragraph test in due course. Therefore, one might expect to generate a minimum of $450,000 annually in profitable business, sustained over the course of three years to enter equity partnership. Many firms will promote a lawyer to equity partnership if an average of the prior three years fees is $400,000 and the current year is $450,000.

However, the easier the entry criteria, the more difficulty the firm will have in maintaining its business model.

These tests are not strictly constructed. It is desirable for partners to work on other’s matters and to supervise lawyers who work on their and other partner’s matters. This is the vibrancy of cross-selling and a value of group practice. There is also room for a small number of partners who do not do this. However, this number, if sufficiently large relative to the total number of partners, can place significant pressure on the firm. A firm’s top business generators cannot sustain ever-increasing requirements to provide work laterally to partners.

The leverage model is best applied at the practice level, designing each practice group to its best configuration. It further applies to the due diligence that one undertakes for lateral hires. Except for special circumstances, a lateral partner candidate should have a client following larger than the firm’s current average revenues per equity partner in order for the firm to improve its competitive position and not just its headcount.

Assessing Business Development

The following sets of characteristics define several types of partners based on business generation ability. It is possible that not all of the categories will be represented in every firm, particularly the first and last categories in the list. Firms should probably not have the next to last category, although a great many do.

Net Exporters

Top Business Generator—consistently (year-to-year and in all market conditions) keeps multiple partners, associates and paralegals busy, often in many practice areas; generally the book of business is at least $4,000,000 (many firms will not have such an individual). Her/his personal market presence drives the firm’s brand and s/he transitions relationships to others, creating deeper, broader and lasting ties to the clients.

This is the only partner category where one might justify low working lawyer fee receipts. However, the volume of business must clearly be at the mid to upper seven figure level for this to occur. Evaluation of this individual is based on an ability to effectively build and sustain the firm’s business, and their effectiveness as a leader.

5 Special circumstances may exist where you are filling an expertise gap or bringing on a resource-constrained portfolio that, once on board, will quickly grow to your threshold requirements.
Leveraging Partner—capable of keeping her/him self and one to two others busy on a consistent basis with a combination of primarily her/his “own” business, supplemented by growing existing client relationships cultivated by others; generally the book of business will exceed $1,500,000. Her/his personal market presence is more prominent than the firm’s brand for marketing and s/he works tirelessly at client transition/succession primarily as a benefactor.

These partners need to be personally productive (i.e., performing legal work at acceptable levels) in order to justify the compensation they seek. They are evaluated based on their ability to both work and generate exportable work for their teams and hopefully some for others as well. A key factor differentiating this individual is the success achieved in transferring relationships as benefactor.

Exporting Partner—capable of keeping her/him self busy and contribute meaningfully to others on a consistent basis with a balanced combination of her/his “own” business and existing client relationships; generally the book of business will exceed $1,000,000. This individual leverages her/his personal market presence as well as the firm’s brand for marketing. This individual may be less comfortable or skilled at client succession as s/he has primarily benefited from others turning over work and is likely still at a mid-career point. However, client transition/succession is a skill they acknowledge as important.

These partners also need to be personally productive (i.e., performing legal work at acceptable levels) in order to justify the compensation they seek. They are evaluated based on their ability to work, generate exportable work for their teams and manage/grow relationships from others. A key factor differentiating this individual is the success achieved in transferring relationships as beneficiary.

Neutral

Self-Sufficient Partner—can keep the equivalent of her/him self busy, but usually gets a portion of work from others and manages to export a small amount of work to others; this means a book of business of about $600,000. Note this is materially above the $450,000 to $475,000 in fee revenue for a senior associate and the entry criteria discussed earlier. The economic bar to be invited is not as high as the bar to remain in the partnership.

This individual combines their growing market persona and the firm’s brand effectively to market. There is an acknowledgement of the need to involve others and to be a good corporate citizen in that capacity; however, execution is weak.

This is generally a young partner, who is just hitting her/his stride and is not yet positioned in the marketplace to build significant independent work. This person will

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6 In law firms with two tiers of partnership, this position could be equity or income, depending on the facts and circumstances – even within the same firm.
need to develop into a higher category or excel as a client manager, portfolio manager team leader or technical expert. This should not be a career option for “very good” lawyers. That, unfortunately, is not good enough.

**Net Importers**

**Service Partner**—usually a sophisticated lawyer/advisor, client/portfolio manager and team leader, but can also be a young partner in firms where there is only one class of partnership. Generally does not generate a significant volume of work on her/his own; we are talking about a book of business of at least $450,000 (the entry level noted earlier). S/he relies significantly on the firm’s brand to market and does not meet the test for self-sufficiency.

Evaluation will depend on the situation. If a young partner in a single partnership class law firm, then evaluation will resemble the Self-Sufficient Partner above. If it is the more typical experienced, older lawyer, then the evaluation is based more on ability to manage client relationships, building them where possible, but generally freeing the business generators to move on to other opportunities.

Unfortunately, all too often this is a very good lawyer with an insufficient ability to attract business. Firms struggle with this situation regularly.

**Importing Partner**—usually an experienced lawyer who does not generate a meaningful volume of work or distinguish her/himself in some other way. They are competent, diligent and good people, but have most likely hit their personal career ceilings. In reality they probably should be staff lawyers or counsel or other non-partner positions.

Yet, here they are struggling and not meeting expectations as a partner. They know it, their colleagues know it. It is a major gripe of high performers coming through the ranks who consider these individuals “blockers” impeding their path. These individuals do contribute, just not consistently at requisite levels. And they often lack a patron to provide support while they raise the level of their game.

**Technical Specialist Partner**—sophisticated problem solver, particularly when the issues are complex and unique, often conceptualizes at a precedent setting level. This individual is uncomfortable with the social aspects of client relationships and prefers the intellectual pursuit of the law. S/he will probably not lead a legal team servicing a client, but may lead a project team for a specific issue.

This individual is evaluated on personal productivity and technical expertise. Having this person provides the firm with a competitive advantage so some slippage in personal productivity is acceptable as long as the specialist partner continues to make intellectual contributions that maintain and grow the firm’s reputation for that high level.

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7 In law firms with two tiers of partnership, these positions are “income partners.”
of expertise. These contributions would include white papers, not articles; lecturing/symposiums, not simply teaching at the local law/graduate program; involvement with government policy makers, and the like.

**In Summary**

Admitting a new partner, either through promotion or lateral insertion, should not be a long-term economic drain on the other partners. Using investment terminology – it should be accretive and not dilutive to earnings. An investment may be necessary to transition the new partner, but the economic rationality of the decision should present itself very quickly.

Once the admission decision is made the other partners must consider how to bring the individual in and how to compensate her/him. This is always a fundamentally difficult process to undertake. Partners do not want to earn less or devalue their partnership interests and yet they want to maintain a constructive environment in which the new, expanded partnership group can go forward and prosper together. This issue warrants ongoing examination. It is fair to continually ask if the actions are fair and equitable to the collective interests of existing partners and new partners together.

Voting and governance must be considered. If a firm has evolved beyond the controlling voting block era, this may be less of an issue. But for those firms where founders or another small group have a controlling interest, adding new partners can become a much more difficult event.

Identifying good partners in a pool of good lawyers is no easy task, but it is essential to sustain the firm, to attract future partners and to effectively manage the professionals not chosen to advance. It is essential that the firm communicate expectations during the process, and reinforce those expectations with annual evaluations specifically measured against those required advancement criteria.

One cannot overstate the importance of the people decisions in any organization. Replace ‘business’ with ‘law firm’ and ‘manager’ with ‘partner’ in this excellent excerpt from David Maister’s Practice What You Preach illustrating this point:

“The success of a business is a matter of choosing the right managers. A huge amount of time is spent worrying about and developing corporate strategies, missions, policies and practices. The amount of time spent thinking about screening for and appointing the best managers pales in comparison. It’s time for firms to switch their attention to what really counts.”

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8 David Maister was a professor at the Harvard Business School and a consultant to professional service firms and a prolific author. Practice What You Preach is a study of what drives profitability in professional service firms. The author of this article recommends all of his books as part of a law firm leader/manager’s reading library.
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