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Leverage and Rates

David A. Scherl

Chairman, Morrison Cohen

In the current economic environment, with many clients tightening their belts, the traditional "leveraged associate" staffing model employed by most large law firms is being called into question. Although this model, which typically relies on a billing ratio of at least three associates for every partner, has proven to be highly successful over the years, the excessive costs involved (high associate and staff salaries, operational overhead, etc.) are becoming a burden on clients, highlighting the alternatives employed by mid-sized firms. One such model is the "unleveraged" platform.

In the unleveraged model used by many smaller and mid-sized firms, associate-to-partner staffing ratios are more likely to be one-to-one, with partners actively involved in working the laboring oar alongside their associates. One obvious advantage to this model is that clients can regularly access the more experienced partner; partners are not merely limited to supervisory functions.

Another advantage is that overhead costs are usually materially lower (less associate leverage per partner results in a lower payroll and less overhead to be covered by hourly billable rates). These savings can be passed along to clients in the form of lower hourly billable rates (in many instances, hourly rates for partners at mid-sized firms are comparable to hourly rates for associates at larger firms).

Another tool that smaller and mid-sized firms employ to manage their payroll and related overhead expenses is the pursuit of meritocracy-based associate compensation (as opposed to the "lockstep" model). Associates, regardless of year of graduation, are billed out at hourly rates reflecting their worth; each individual's capabilities are taken into account, they are compensated commensurate with their value to a client, and are billed out at rates reflecting the same.

This flexibility is yet another way that firms are able to keep billable rates from being artificially inflated due to the lockstep compensation approach. Indeed, fees for legal services performed by mid-sized firms following these approaches are often 20 to 30 percent less than the comparable fees at larger firms; as a result, these firms are often experiencing growing market share from both middle market and larger cap clients seeking better pricing and senior attorney level attention.