The *Second* in a Series of **Partner Compensation Structures**
"Parity"

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This is the 2nd article in a series of 7 discussing the different kinds of partnership compensation structures that law firms tend to adopt. In Part 1 we discussed the Monarch structure which involves one partner who rules over the others on compensation issues.

Parity

Description

All of the partners split the profits of the firm evenly. This format usually comes out of a situation where two or three lawyers of similar vintage are friends and decide to form a partnership.

When It Works Well

When the lawyers have roughly equivalent abilities to generate business and compatible values and work ethic, they may be comfortable with this format. Frequently they have the same or similar practice areas, so changes in the economy, or other factors outside their control, affect their revenue generation capabilities similarly. They also usually share management and administrative duties fairly evenly.

The format has the virtue of simplicity. It is easy to calculate and avoids arguments over nuances. It supports teamwork and cross-selling because "a rising tide lifts all boats."

If the lawyers have significantly different practice areas, such as litigation and transactional practices, it can have the benefit of sharing the risks of economic cycles. Usually transactional practices surge during a strong economy and litigation wanes. Then when the economy takes a downturn, deals drop off. Litigation experiences an uptick as more conflict arises over money. The temporarily prosperous lawyers should maintain a long-term view, however, and remember that in a new cycle their positions will likely flip.

When It Works Poorly

This format is not very common because it usually doesn't work well beyond the early years of a law firm, when two or three lawyers are united against the world for survival. Unlike a professional services organization, in a small business that sells a product, it is not easy to ascertain whose efforts brought in what revenues. The great salesperson can't function without the person who manufactures the product, and vice versa. In that kind of business, sharing the revenues evenly among the partners doesn't create so much controversy. In a professional services firm, however, often the salesperson also produces the service he sells. Therefore, the partners can more readily claim credit for specific revenues. If the amount of revenue generated by the different owners does not roughly coincide, friction develops.

Friction also develops if the management and administrative duties are not shared evenly, because time spent on such duties takes away from time available for billable work or business generation. If one partner spends a greater amount of time on management duties, the more easily measurable statistics – billable hours – will not properly reflect his contribution to the success of the firm.

This format also works poorly if the partners do not share the same values or have similar life styles. For example, the workaholic may resent splitting profits evenly with the lawyer who leaves early to attend t-ball games and piano recitals, and otherwise strives to maintain work/life balance.

Next: Part 3: Executive Monarchy