9 Legal Expert Perspectives on

The Future of Bonuses & Profits at Law Firms

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Jorn Vanysacker

Co-founder and Co-CEO, Henchman

Hi there,

In the ever-changing landscape of the legal industry, law firms face the constant challenge of attracting and retaining top talent while adapting to emerging trends and client demands. We've written about the war for talent and about the billable hour before. But another crucial aspect in this delicate balancing act is culture, investments, and thus the distribution of bonuses and profit proceeds.

The conventional business model of law firms, which has remained relatively unchanged over the past three decades, is under pressure: recent surveys indicate a decline in the number of aspiring lawyers willing to join top-tier firms, highlighting the need for law firms to question their approach. Moreover, modern technology such as generative AI is also putting pressure on the type of work law firms can charge for.

As law firms strive to remain competitive, it becomes essential to explore the financial realities they face, the shifting expectations of aspiring lawyers, and the innovative strategies that can pave the way for a prosperous future. Talent enablement, (tech) investments, and incentives, such as bonuses, are an important part of this discussion.

So let's examine the current state of these incentives and delve into their possible evolution in the coming years. What factors influence the structure of bonuses and profit distribution within law firms? Are there alternative methods that could better motivate and reward legal professionals? Or does the current system still effectively serve its intended purpose and the clients?

We've asked 9 experts to share their views on the distribution of bonuses & profits at law firms, and most importantly, in which direction they think it should evolve.

Join us in this fascinating discussion as we analyze the current situation and imagine the future.

Kind regards,
Jorn

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Olivier Lopez

Managing Partner at Squair

In order to talk about bonuses and profit proceeds we need to understand the dynamics of profits in law firms.

The **business model of law firms** around the world is pretty much the same and has not evolved much over the past 30 years:

- Revenue is mainly originated by senior lawyers (partners) and produced by the more numerous junior lawyers (non-partners)
- Operating costs (offices, salaries of staff and of non-partners...) typically represent 50% to 60% of revenues, making the gross margin 40% to 50% of revenues;
- Globally, the average corporate income tax rate is about 25%, making net profit on average one-third of income;
- Equity partners of law firms are generally paid exclusively on these profits, which they usually divide integrally among themselves based on different philosophies (lockstep, eat what you kill...). An equity **partner's income** is thus typically **one-third of revenues**.

As a result, when partners decide to increase operating costs or investments, their perceived effort on their own income is a multiple of the nominal effort. Say a law firm allocates 10% of its revenue to investments in technology and bonuses for staff and associates, the equity partners will suffer a staggering 25% reduction of their income.

> **"Say a law firm allocates 10% of revenues to investments in technology and staff and associates' bonuses, equity partners will suffer a staggering 25% reduction of their income"**

If you understand those financials and know the basics of behavioural economics, you will understand why law firms, run by equity partners, have traditionally been so stingy about investing or sharing profits with non-partners.

Due to inflation and the economic slump, law firms are facing declining gross margins. Operating expenses are difficult to adjust quickly, so the easiest way for law firms to try to maintain gross margins (and thus partners' income) is to reduce staff and associates. Historically, as soon as the economy starts to grow again, they hire associates again.

But it is not so easy to attract young associates anymore. Not even by offering stellar first-year compensation and bonuses. A recent article in the Financial Times showed that less than 40% of aspiring lawyers in the so-called Gen Z generation said they would want to work at one of the largest 200 firms in the US (those giving the highest salaries and bonuses), down from 60% when the poll was last carried out three years ago.

Bonuses alone will not be the solution. Alison Taylor of NYU Stern School of Business recently pointed out that "young lawyers are looking for firms with a **better work-life balance, some ethics, a long-term vision, and a proper commitment to diversity".**

At Squair, we have decided to meet these legitimate expectations by providing young lawyers with a **mentally healthy and diverse environment** in which to grow. We commit to promoting associates to equity partners before their eighth year of bar, if they are still working with us by that time. Without any form of discrimination (gender, ethnicity, sexual orientation, religion...).

We have a **non-pyramidal structure**, with **one partner to one associate rule**. Each associate is attached to a dedicated partner who is structurally incentivized to mentor them until they become partner.

"Each associate is attached to a dedicated partner who is structurally incentivized to mentor them until they become partner."

Nonetheless, **we give bonuses**: in addition to the traditional bonus based on billable hours, we grant a bonus based on the business associates bring to the firm. That **"origination" bonus** is calculated on exactly the same basis as for the partners: **15% to 20% of revenue.**

Finally, **we invest in technology**: we dedicate time and resources to partnering with several legal tech such as Lexis® Create+, Luminance and Predictice, and on training our lawyers in using the tools we put at their disposal and in mastering soft skills and innovative ways to provide legal advice (legal design).

We strongly believe that technologically enhancing our lawyers, combined with our structure, is the right approach to prepare the future of law firms.

"Technologically enhancing our lawyers, combined with our structure, is the right approach to prepare the future of law firms."

The Legal Bench

Loes Mensink

Founder at The Legal Bench
and Lawyer at INGEN HOUSZ

Does the war on talent lead to higher salaries and bonuses for lawyers? In other words: how motivated are lawyers by money, and what will it take (in terms of remuneration and benefits) to attract and retain talent in the years ahead?

As a legal recruiter I have observed that young lawyers earn higher salaries every year in the Netherlands. And especially in the last three years, we saw strong increases for lawyers with one to three years of experience.

> **"Young lawyers earn higher salaries every year."**

This suggests that there is fierce competition for talent among entry-level positions, and young lawyers find themselves in a favorable position. The real war for talent, however, is taking place at a medior and senior associate level, with 5+ years of experience. Despite the prospect of a well-compensated partner position, an increasing number of lawyers with four to eight years of experience are leaving large law firms to pursue a career outside the traditional big law setting.

Salary remains a crucial factor in choosing a career at a large law firm. To remain competitive, law firms need to align their compensation at all levels with market norms. As soon as their competitors increase their remuneration packages, they should follow. If not, potential candidates will simply reject their offer with a simple "no thanks".

> **"I have never spoken to a candidate that preferred or even mentioned that he or she would like a role with a big bonus"**

However, a big bonus is not a real motivation to choose an employer. In my five years as a recruiter, I have actually never encountered a candidate who preferred or even mentioned they would like a position with a big bonus. Candidates simply have a minimum salary expectation and their **career choices are mainly driven by learning and development opportunities, company culture, and an interesting workload**. In recent years, candidates have increasingly emphasized the importance of making a positive impact and maintaining a healthy work-life balance as criteria for their career choices.

At big law firms, large bonuses may serve as a short-term tool to retain talent for a few months. However, it is noteworthy that the number of departures typically increases after bonuses are awarded. Hence, while there may be arguments for a more equitable distribution of profits within law firms, bonuses do not appear to be the ideal mechanism for achieving that goal.

Legal professionals tend to be **risk-averse and prefer fixed remuneration to variable pay.** And **most do not leave their firms because they feel underpaid.** Common reasons for quitting include frustration regarding profit distribution within a firm's hierarchy, repetitive work, limited autonomy in career path choices, an inadequate work-life balance, and an unsatisfactory company culture.

According to Business Insider's report, **associates in the US experienced a 44% wage increase between 2011 and 2021, while partners at top law firms in the US saw their profits surge by 85% over the same period.** The road to partner is long and big money no longer has the appeal to young people that it used to. A big salary does not motivate the legal workforce of the future to stay for 10 years or more. Partners feed their self-appreciative communities by generalizing that young lawyers no longer possess a strong work ethic and set different priorities.

> **"Partners feed their self-appreciative communities by generalizing that young lawyers no longer possess a strong work ethic."**

And the latter is probably true: Young lawyers choose a big law firm for a good education and to kick-start their careers. Instead of working around the clock for big bucks, they want to make a positive impact and spend time with their families. This change in priorities calls for a reassessment of talent retention strategies. However, **the average group of partners in typical law firms lacks diversity, with predominantly white, middle-aged males in such positions. This leads to a lack of creativity in thinking about HR and employee retention strategies**

But what could work then?

In my personal opinion, we need true open-mindedness, inclusiveness, and a less hierarchical culture to achieve successful talent retention. The "Up or out" model dates back to the early 20th century and it is likely that tomorrow's law firm will rely heavily on technology, adaptability, and flexibility: typically not the core competencies of a 50-year-old male partner. This means law firms need their young employees and their ideas and ability to work with technology more than ever.

While fair compensation remains important to retain talent, it is even more crucial to let them have their say and give them the responsibility to shape the firm's future business models. Radical change is around the corner, with generative AI making its way into the legal field. The law firms that can adapt their business models accordingly and that are willing to reward the professionals that add the most value in those new models will be the law firms of tomorrow.

> **"The law firm of tomorrow is heavily depending on technology, adaptivity and flexibility: typically, not the core competencies of a 50-year-old male partner"**

RIMÔN

Joseph I. Rosenbaum

Partner, Rimon P.C.

Law Firm Bonuses and Profit Distributions: For Whom the Bell Tolls?

Much like the myth that copyright laws were enacted to protect artists, authors, musicians, and other creative individuals, there is a mystique surrounding the value of bonuses and profit-sharing or distribution programs at law firms – especially for associates.

Lawyers and law firms are reluctant to let go of the hierarchical pyramid structure. Why? For one, the individuals who have risen to the top of these firms became and remain successful, in large measure by successfully navigating and exploiting that model. W. Edwards Deming, the renowned engineer turned management consultant once said: **"Each system is perfectly designed to give you exactly what you are getting today."** So true. Why would the leadership of any law firm voluntarily overturn a scheme that has put them at the top, only to subject themselves to the risk of failure in a new system? As individuals, we all appreciate that the most dangerous phrase in any business is "that's the way we've always done it" (e.g., see The Most Dangerous Phrase In Business: We've Always Done It This Way). But organizations always find change difficult.

> **"The most dangerous phrase in any business is "that's the way we've always done it"**

Most law firms know, but often won't admit, that compensation and bonuses are awarded to those who have the highest volume of business and whose client roster is stellar. Law firms measure origination, realization, billable hours, write-offs, and work in progress. Major law firms have entire finance groups dedicated to compiling statistics and generating reports. Lawyers are value-added service professionals, but law firms are a business! How many law firms measure, let alone determine compensation or bonuses, based on profitability – per individual lawyer, per practice group, or even per customer – the clients they serve?

Consider the following scenario:
One client, a client of lawyer A, is a medium-sized, highly successful company that is billed about $750,000 a year on average. They pay their bills, usually within 30 days, are enduringly loyal to Lawyer A and her dedicated senior associate, and have been with them for over 12 years. The other client, a client of Lawyer B, is a well-known publicly traded multinational conglomerate. Billings have averaged about $25 million a year for the past 3 years. This client has a policy of re-bidding their outside legal work every 3 years, has a 60-day payment policy, and Lawyer B is a former college roommate of the General Counsel.

What if you were told that to support Lawyer A's client, the compensation for both the partner and the senior associate was $500K and assuming an approximate 25% cost for support, overhead, and benefits and a $25K bonus to the associate, for an additional $150K. That means that the law firm generates about $50K in profit from that client. Now let's consider the $25 million client. Lawyer B requires lots of other partners and associates to support that client's legal needs. There is relatively little loyalty below the very senior people at the firm, but there is a high degree of connectivity, interaction, and relationships at the associate and junior partner level with a variety of people at the client's offices – you don't generate $25 million worth of billings without an awful lot of lawyers working at the grassroots level with multiple departments and people at a publicly traded, multinational company! Now, without boring you with the math, let's say that between compensation, bonuses, benefits, and overhead, this client requires over $28 million to support each year. That's about a $3 million loss, not to mention the lunches, dinners, client event sponsorships, contributions, sport and concert tickets, and so on and so forth, all designed to keep the client tied to the law firm.

Which lawyer do you think will receive the highest compensation, the largest bonus, and is more likely to sit on the executive committee or be a practice group lawyer? Who will have the most say in whose associates or junior partners receive bonuses and incentives? Some of you – probably more associates than senior partners – are smiling now. Does any of this surprise you? If not, then you understand why **increasing numbers of associates no longer aspire to partnership**, move easily from one firm to another in search of short-term increases in compensation, and why many are leaving, often hoping to take their client relationships with them to start their own origination pyramid. While lawyers are generally a conservative, risk-averse lot, younger lawyers are smarter, less loyal, more prone to questioning and often frustrated by a system that does not seem fair - one they are unable to change.

> **"Increasing numbers of associates no longer aspire to partnership"**

A 2022 study by the National Association for Law Placement ("The 2022 NALP Associate Survey Report") found that **the average associate leaves their first law firm after 3.6 years.** In that same year, a study by the American Bar Association ("Attrition and Retention of Law Firm Associates") reported the top three reasons why law firm associates leave: **lack of work-life balance (38%); unrealistic expectations (33%); and poor compensation (29%).**

Consider the system from the associate's point of view. If bonuses and profit distributions are based on statistics that measure origination credit, total gross revenue and billable hours, what is the firm actually incentivizing? They are forcing associates to work longer hours at higher billable rates and consequently succeed in the existing model or be relegated to never being made partner or ever given substantial increases in compensation or bonuses, **even if their value and capabilities are unquestionably stellar and of unquestionable value to the firm and to clients.** That's the likely fate of the dedicated senior associate working with Lawyer A. Again, and not surprisingly, bonus and profit distribution systems are designed to preserve the status quo.

> **"Let's also appreciate there is an inevitable and inescapable tension between the traditional law firm lawyer and a corporate lawyer"**

Let's also appreciate there is an inevitable and inescapable tension between the traditional law firm lawyer and a corporate lawyer (or corporate executive) - the client that gives out most of the work. **Corporate counsel gets promoted, recognized, compensated and bonused for being productive, efficient and concise – get the work done and move on to the next matter. Law firm lawyers make money by being slower, using more professionals and increasing billing rates.** Corporate counsel have budgets, are accountable to the CEO or CFO, have to do succession planning and be an asset to the client they serve – for a fixed fee - with bonuses awarded for work above and beyond, often in the form of equity – an incentive to be productive, save money and help the company succeed. Do any of those criteria or incentives apply to law firm lawyers?

> **"Technology didn't solve the problem. It gave creative people an alternative – a choice"**

So we are now back where we started. **Copyright laws spawned powerful literary publishing companies and multinational record labels while perpetuating the myth that its purpose was to benefit individual creative talent.** Nothing was farther from the truth. Individuals had to assign all their rights to these publishers and record labels, in return for a modest royalty in order to be seen and heard. The World Wide Web and digital technology have changed that paradigm – this time truly for the benefit of many creative individuals. Publishers and record labels have had to adapt to this brave new world or face extinction. Technology didn't solve the problem. It gave creative people an alternative – a choice. **Similarly, technology won't (and hasn't) changed traditional law firms. But increasingly technology is giving young lawyers a choice and more and more of them are taking advantage of those choices. Not surprisingly, clients are also realizing they have choices.**

Patricia Collis

Partner at DLA Piper

Incentivisation and remuneration are big topics, with many intertwined issues at play. It is a challenge across our industry to focus on delivering value for our clients while we continue to charge predominantly on a time-spent basis. In my practice, I'm exploring how we engage with clients beyond simply the time billed on matters and jointly develop an understanding of the value we create for client organisations. However, the link between bonuses and the billable hour often disincentivises behaviours that create a win-win for us and our clients.

To consistently provide excellent service for our clients and receive recognition for both live matters and broader value-creating activities, by moving away from the billable hour as the sole or predominant model for charging clients, we also need to look at the architecture of law firm bonus schemes.

Across the sector, we typically award bonuses based on whether an associate has met or exceeded a set of expectations (provided the firm as a whole has met or exceeded its expectations). The vital question concerning creating sustained value for our clients is how do we establish and measure those expectations within a law firm? And more specifically, what does this mean for law firm associates?

"How do we establish and measure expectations within a law firm?"

It should go without saying that within any law firm, it's not just the associate community contributing to success. However, as a general rule, this community is the one whose bonuses are most directly related to the billable hour. More specifically, the number of hours billed over a year.

In much the same way that many of the arguments in favour of the billable hour proclaim that it is simple and quickly understood, the starting point for many conversations around bonus schemes is that a direct link to billable hours is simple and easily understood – and, of course, easily quantified. And when the main job of an associate is to "do" the work, there's a clear logic to the idea that rewards should go to those who bill more hours.

"Are we hindering the development of new ways of working which ultimately improve profitability or client intimacy?"

I'm not saying there is no place for this approach or that it has no merit (it does, of course). But by linking incentivisation of performance to such a narrow metric: **are we hindering the development of new ways of working which ultimately improve profitability or client intimacy?** To take a basic example, it may take a mid-level associate 3 hours to draft a particular type of report for a client, for which the client will happily pay for three hours of time. Great. The associate has three hours banked towards their annual target, and the client has the report they need at a price they are happy with. Take now the associate who has prepared 50 of the same reports over a year. They innovate and create new ways to prepare the report more efficiently without compromising the work product. They can now prepare one of these reports in just an hour and a half. So rather than banking 150 hours towards their target, they are now down to just 75 hours, thus less likely to be in bonus territory.

Yes, of course, they have freed up 75 hours to work on other matters, potentially ending up in the same position. But that misses the point slightly – by setting up bonus schemes linked solely or primarily to billable hours, many law firms are effectively discouraging associates from finding and implementing efficiencies or developing a growth mindset for value creation within the client.

From the client's perspective, they were perhaps happy to pay for 3 hours for the report in the first instance. Perhaps they felt they were getting value for money or could justify this cost internally based on a predetermined schedule of rates. But the critical question is whether the report provided value more significant than the price charged. This consideration allows us to divorce the time taken to value creation.

There is the discussion about what to do with those "saved" hours"

I am interested in exploring how we leverage the saved time to deliver further innovation, provide further value-creating services, or even realise increased profitability. We already know that such innovation and value creation are increasingly important considerations for clients, often influencing decisions on which firms or lawyers to partner with. And by their very nature, they enhance and strengthen the more extensive relationships between the organisations.

If satisfied, we can imagine the client will likely be happy to pay the same amount irrespective of whether it took 1.5 hours or 3 hours to prepare their report – from their perspective, the value is in the report itself, not how long it took to prepare. So in this scenario, the client would be happy to pay the same amount. The associate has, therefore, effectively found a way to make the work more profitable – but their "performance" for these reports, in billable hours, has decreased. And their chances of receiving a bonus have thus potentially decreased also. This does nothing to incentivise associates to work efficiently.

Aside from this point, there is also the discussion about what to do with those "saved" hours. Yes, the associate could spend 75 hours on other matters, which will likely be the case for many associates.

I question whether reinvestment of this time is more effective for the law firm and the customer. Digital innovation is at the heart of much disruption in our sector, and our clients recognise the potential impact of AI in professional services. **By recognising innovation jointly with the client and adopting charging models accordingly, we may incentivise the associate to deliver further innovation that creates value jointly for the law firm and client organisation.**

Targets based on profitability or fees billed would mean that these associates could dedicate time to other "non-chargeable" tasks such as work winning, client relationship management, mentoring, training, etc., without fear of being seen as "underperforming" as a result of finding more efficient ways of working. Indeed, it is these "other" tasks that many associates either neglect (at least until they find out that being a high biller alone will not get them into a Partner role) or dedicate their evenings and weekends to.

Other bonus models exist, such as rewards for winning work or other "exceptional contributions". The difficulty with those models is that it is much harder to quantify the rewarded outcomes or apply a mathematical formula to work out the value amount of the reward – but this is certainly not a problem unique to law firm associates, and so an area where we can learn from others. Other evolutions to the billable hour-based bonus system include allowing a certain number of hours of pro bono work or other value-add tasks to count towards the target that triggers a bonus.

As the expectations and drivers of both clients and law firm associates continue to evolve **we need to develop reward scheme objectives that are both quantifiable and service the needs of both the law firm and its clients.** Recognising that the hours spent innovating or training clients are often as valuable as those spent on the clock writing reports, and indeed can go much further in deepening the relationship.

WESTERMAN BALL EDERER
MILLER ZUCKER & SHARFSTEIN, LLP

Alan Ederer

Partner at Westerman Ball Ederer Miller Zucker & Sharfstein, LLP

Our firm is a 45-attorney, suburban New York City law firm with many lawyers who formerly practiced with larger NYC firms. We have always been focused on recruiting and retaining talented attorneys. Our retention efforts include fairly compensating associates and non-equity partners, as well as offering a pleasant working atmosphere and real opportunities for professional growth. These issues are even more important in the post-pandemic world, as attorneys are focusing on work-life balance more than ever before.

> **"Attorneys are focusing on work-life balance more than ever before"**

Before the pandemic, and the related increase in remote work, a principal differentiator between our Firm and New York City firms was our ability to offer attorneys residing in the suburbs a shorter, easier commute compared to traveling into the city every day. Although there have been recent pushes by management of certain law firms and businesses to go back to a four or five-day work week (and the situation continues to evolve), remote and hybrid work arrangements will continue for the near term. Thus, while our suburban office remains a relevant recruiting tool, it is less impactful in the current environment. Accordingly, **compensation and incentive arrangements have grown in importance.**

We believe that we compensate our attorneys at base annual levels at the higher ranges of our peer law firms. In addition, while year-end bonuses are discretionary, historically we have paid annual bonuses to our attorneys and staff each year. Those bonuses are also at the high range of our peer firms, and we expect to continue to pay similar bonuses as we remain profitable. **Attorney bonuses are generally based on customary factors such as quality of work, profitability, client dedication, firm citizenship, and reviews from senior attorneys and clients.**

While compensating attorneys through salary and bonuses is critical, it is not the only way to incentivize attorneys. For example, we encourage our attorneys to develop and originate new clients and business if they have an interest in doing so, and we do everything we can to support them in that process. Although it is not required, we believe learning client origination skills will be beneficial to our attorneys individually and to the Firm as an organization. We have also found that attorneys who have first-hand experience dealing with their own clients and understanding their wants and needs become better, more efficient, and more practical attorneys. Accordingly, we generally pay associates and non-equity partners a percentage of the revenues they have originated and collected each quarter, even if the attorney did not work on the matter directly.

"We generally pay associates and non-equity partners a percentage of the revenues they have originated and collected each quarter"

We have also implemented a number of Firm committees that involve non-equity partners as members. For example, we have a Marketing Committee, and we encourage attorneys to prepare personal business plans (which we review with them) in order to help pitch for new clients and work. We also contribute if an attorney would like to engage in individual marketing efforts, such as taking a client to dinner or to an event. We ask all attorneys for suggestions relating to our Firm's website and other marketing materials, and we have implemented their suggestions on a number of occasions. Also, all attorneys participate in the Firm's recruiting efforts, including with respect to first-year and summer associates.

The goal of our efforts outlined above is to provide an overall culture that will allow us to retain our current talent and attract excellent lateral attorneys as needed. **While base compensation will always be an important factor, we believe that our overall approach has worked well and will continue to do so going forward.**

ANDERSEN

Ricardo Pla Olmos

Director at the Corporate and Commercial Department of Andersen Spain

Historically, law firms have competed to attract and retain top professionals through a combination of attractive bonuses and benefits. These packages often include performance-based bonuses and other types of remuneration packages (health insurance, retirement plans, etc.). However, this situation is changing rapidly in recent years.

One of the main factors that is transforming the way bonuses and benefits are structured in law firms is technological advancement. This is because technology has enabled greater efficiency in the delivery of legal services, which has led to increased pressure on profit margins. As a result, some firms are rethinking their approach to bonuses and profits.

> **"Technological advancement is transforming the way bonuses and benefits are structured in law firms"**

Rather than focusing solely on monetary bonuses, firms are beginning to offer more flexible benefits tailored to lawyers' individual needs. This includes flexible working hours, professional development opportunities, mentoring programmes, and work-life balance. In addition, some firms are investing in wellness programmes for lawyers, such as counseling services and psychological support (especially in the wake of the COVID-19 pandemic).

Technology is playing a key role in the evolution of law firms. Digitalisation and automation are enabling process optimisation, which in turn reduces costs and improves efficiency. For example, artificial intelligence and machine learning can analyse large volumes of legal documents in a matter of minutes, saving time and resources. This not only allows lawyers to focus on higher-value tasks but also has an impact on profitability and the ability to offer attractive bonuses and benefits.

> **"Artificial intelligence and machine learning can analyse large volumes of legal documents in a matter of minutes"**

In addition, technology is opening up new opportunities for law firms. Digitalisation has led to the emergence of new business models, such as online legal services and online dispute resolution platforms. These innovations can enable law firms to expand their reach and offer services at a lower cost, which in turn can influence the way in which bonuses and profits are structured.

The current state of bonuses and profits in law firms is being shaped by technology. As digitalisation and automation continue to advance, we are likely to see significant changes in the way compensation packages are structured. Law firms will need to adapt and find a balance between monetary bonuses and flexible benefits, while taking advantage of the opportunities offered by technology to continue to attract and retain top talent.

VIALEGIS
LEGAL STAFFING SOLUTIONS

Philippe Jadoul

Founder Vialegis

Law firms, like most other service companies, have few assets. They have IT systems and office equipment, and they used to have extensive (and expensive) libraries – some still do, but in most cases, the books have been replaced by digital tools. Their most important asset, by far, is people. Law firms have (for the time being) a fairly simple revenue model: get as many lawyers as possible to work a huge number of hours at the highest possible rate.

> **"Better lawyers guarantee higher fees and higher profits per partner"**

To achieve this, it is essential to attract - and retain - intelligent, loyal, creative and fully committed lawyers. Better lawyers guarantee higher fees and higher profits per partner. Both attracting young lawyers and keeping them for a sufficient number of years has become increasingly difficult.

The market for young associates is scarce. Most graduates still favour starting their career at one of the big (US or UK) law firms, at least those who are not put off by the long working hours in a generation that does not necessarily wants to copy their parents' way of working.

But often they see this as merely an ideal training period, which looks good on their CV, after which they continue their career elsewhere. The number of young lawyers stating that they are planning to leave the legal profession within the next five years is staggering. This trend has certainly been accelerated by the pandemic.

As a result, all law firms are looking for the same profiles: associates with between 4 and 6 years of experience in M&A, finance, or other 'sexy' areas of law. The war for talent is in fact over and the candidates have won.

> **"The war for talent is in fact over and the candidates have won"**

Retaining lawyers is obviously the best way to ensure a sufficient 'workforce', and the role of the firms' HR departments has become much more important over the years (although some (mostly local) firms still don't have an HR manager or department).

All law firms can do is throw money at potential candidates. Ever-increasing remunerations, while fees and profitability are under pressure, and all sorts of bonuses: one-off sign-on bonuses, even for young associates, and the prospect of attractive bonuses upon performance.

Bonuses surely play an important role in attracting and retaining lawyers. Traditionally, the level of bonus from year to year was based on an associate's number of billable hours. This is still largely the case, although most firms now also attach some importance to other elements such as attracting clients or non-billable work including ESG-related efforts. In a generation where work-life balance is not unimportant, the focus is shifting towards better (rather than more) hours.

"In a generation where work-life balance is not unimportant focus is shifting towards better (rather than more) hours"

Some firms now offer a choice between different bonus schemes whereby associates can opt to receive bonuses that take into account the revenue they generate for the firm or continue to receive flat bonuses based on thresholds for hours worked.

The level of bonuses tends to increase. For example, one sees an evolution whereby the level of bonuses in the US, which has traditionally been much higher, is now spreading to the UK and may spread further elsewhere.

This does not only apply to associates but also to counsels and non-equity partners. They are eager to dig into the pot of gold as equity partners but (for various reasons) this process has become much longer and the only way to reward their patience is by granting them attractive bonus schemes. Perhaps firms should consider introducing long-term incentives instead of an annual bonus: **offering incentives such as profit-sharing agreements for lawyers who demonstrate long-term commitment and provide value to the firm, which promotes a sense of loyalty and dedication, and alignment with the firm's overall strategy.**

Higher remunerations and bonuses lead to higher costs in an industry where fees and profitability are under pressure. Not a very comfortable business case.

Moreover, the legal world is changing rapidly with technology being added to the mix. **The legal industry has been notoriously slow in adapting to digitalisation and new technologies, but there are signs that the 'big bang' is finally about to happen.**

"Will working smarter become more important than working harder?"

AI will fundamentally influence the time lawyers spend on a matter, threatening the traditional revenue model. On the positive side, AI will not request (ever-increasing) bonuses but will quietly and reliably do its job. **But will lawyers who use AI well, and thus spend fewer hours on a case and create more value for a client, get a higher bonus for it?** Will working smarter become more important than working harder? And will other professionals such as legal operations managers or legal tech specialists also become entitled to bonuses?

Moreover, alternative legal service providers are entering the market and are adapting to new technologies (including new billing models) faster than most incumbents. Will they use the same bonus mechanisms or will they find other and better ways to motivate their staff while delivering their services in a qualitative and profitable way?

Disruption has taken place in many sectors and industries. The legal sector seemed to escape, but this may now change rapidly. This will have an impact on many aspects of running a law firm, including the packages and bonuses offered to lawyers. As always, the most creative and adaptable players will win.

averylaw

David Turney

Managing Partner at Avery Law

The Evolving Landscape of Holistic Bonus Schemes

Traditionally, the size of a lawyer's bonus was measured on metrics such as the number of hours billed or the revenue generated for the firm. **Lawyers often work extraordinarily long hours, sometimes at the expense of their physical and mental health**, and there has been a significant rise in burnout among legal professionals; law firms have been prompted to reassess their operational models and incentive structures. A trend has emerged, placing emphasis not solely on monetary rewards but weighing the benefits of a more balanced approach, giving lawyers the freedom to manage their own schedules and incorporate well-being practices into their daily routines.

There is a growing recognition that lawyers should also be rewarded for their efforts in marketing and business development, as well as for coming up with innovative solutions to improve client centricity and team efficiency. These contributions are crucial in a highly competitive market where firms must navigate a highly competitive market and adapt to changing client expectations.

Lawyers who dedicate time and effort to marketing and business development play a vital role in attracting new clients and expanding the firm's reach. By actively seeking opportunities to showcase their expertise and engage with potential clients, these lawyers contribute to the firm's growth and success. Recognising and rewarding their efforts can motivate lawyers to invest more time in building relationships, enhancing the firm's reputation, and securing new business opportunities.

> **"Lawyers who embrace technological advancements, streamline processes, and implement innovative strategies deserve recognition"**

Similarly, lawyers who innovate and **find solutions to improve team efficiency should be acknowledged and rewarded.** In a profession known for its adherence to tradition, lawyers who embrace technological advancements, streamline processes, and implement innovative strategies deserve recognition. Their contributions not only enhance the overall efficiency of the firm but also contribute to increased productivity, client satisfaction, and cost-effectiveness.

Rewarding marketing and business development efforts and innovative solutions can foster a culture of collaboration and creativity within the firm. Lawyers are encouraged to share their ideas, collaborate with colleagues, and collectively contribute to the firm's growth and success.

When speaking to the younger generation of lawyers, there is a recognition that work-life balance is as much a reward as a monetary bonus. Instead of emphasising billable hours and bottom-line results, there is a need to foster an environment that values the overall well-being of lawyers. Offering flexible work schedules allows lawyers to work when they're most productive, resulting in higher quality work and greater job satisfaction.

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Moreover, a focus on employee well-being as a form of bonus is also important. This approach is based on the idea that healthier, happier employees are more likely to be engaged, motivated, and productive, ultimately benefiting the firm in the long run.

These progressive practices have the potential to reshape the legal industry's competitive landscape. Firms that incorporate such holistic bonus schemes and recognising and rewarding non-legal contributions are likely to attract and retain top talent who value a balanced and holistic approach to work and life. It is worth noting that these bonus schemes also align with evolving societal values that emphasise well-being and flexibility.

The future of law firm bonuses appears to be leaning towards a more balanced, people-first approach that rewards not just the quantity, but the quality of work and life and recognition of contributions for innovation. Integrating a more balanced, people-first approach to bonuses not only enhances job satisfaction and engagement but also helps foster a culture of long-term success and sustainable performance. By recognising the value of both monetary and non-monetary rewards, law firms can create a comprehensive and effective bonus system that meets the diverse needs of their lawyers while promoting a healthy and productive work environment.

LANDER & ROGERS

Lisa Fitzgerald

Partner at Lander & Rogers

Shifting sands: from hourly billings to trusted advisor KPIs

The sands of time have shifted, leaving billable hours adrift. And it is not untimely for business and commercial legal practices worldwide. Since the beginning of my career 20 years ago, at the dawn of the digital dotcom era, there has been increasing demand for new fee structures in this area. Given the changes technology has brought to doing business in that time, it is no wonder that the way legal work is valued, delivered and charged is finally changing.

Having worked at law firms in both the United Kingdom and Australia, and for global corporate clients based in countries ranging from the US to Singapore, **two things have not changed in that time. The first is the clients' demand for price certainty. The second is the nature of legal advice and its susceptibility to 'scope creep' based on new facts or changing legislation.** These are two sides of the same coin, but almost incompatible, and often leaving one side dissatisfied, either because the client did not budget for the fee 'estimate' or because the lawyer has not managed fee expectations and scope change to the extent required.

For many, the stories of happy clients, satisfied not only with the advice but also with the amount of the fee, are becoming the exception and not the rule. This marks an important turning point given how reliant the legal profession and legal careers are on client advocacy, both for professional rankings and for future work.

It is also a state that is increasingly at odds in a world where corporate values - those of clients and law firms alike - align with concepts such as integrity, sustainability, equity, inclusion, innovation, governance, and well-being. Most corporates in capitalist economies will have at least one or two of these values at their core, alongside an overarching profit objective.

"For many, the stories of happy clients, satisfied not only with the advice but also with the amount of the fee, are becoming the exception and not the rule"

Agreeing to purchase legal fees without certainty about where those fees might end up is understandably beyond the remit of most buyers of legal services and not in line with corporate and fiscal responsibility. **Asking lawyers to work around the clock without being in a position to reward their efforts through a bonus based on 'realised fees', is also inconsistent with the notion of equity and well-being for the lawyer involved.**

So, in this climate, where exactly have the sands of time shifted when it comes to legal fees? While fixed fees and capped fees are increasingly preferred over fee estimates, in my view the answer must lie in the concept that is core to our professional role as trusted advisers - **a role which I believe behoves lawyers to adapt to a technology-driven age with fees that are measurable based on a multitude of metrics or key performance indicators (KPIs).**

While part of this solution inevitably involves testing the AI-waters, with rigorous checks on the veracity of the information inputted and generated, and delivering efficiency gains to clients, it is also about **ensuring that legal advice can be productised, customised and charged in a way that is generally consistent with other professional services acquired by corporates**. They are under increasing pressure to be commercial and able to focus on issues with consequences, whether a breach of contract, regulatory fines and investigation, share price fluctuation, reputational damage, or criminal penalty.

"Fair value ought to be placed not only on the ability to advise by reference to these metrics but also by reference to the duty to advise competently"

However, the ultimate quantification of fees based on trusted advisor KPIs should also assign value to the oft-forgotten benefits of legal advice – privilege, fiduciary client-solicitor duties, avoiding client conflicts, and providing professional accountability for our counsel. In my opinion, fair value ought to be placed not only on the ability to advise based on these metrics but also based on the duty to advise competently, stand behind your advice, and also on the holy grail that most lawyers tirelessly pursue throughout their careers, excellence.

Dunya

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lawyers in your organisation

Get in touch: dunya.polvan@lexisnexis.com
www.lexisnexis.com

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