

9 Legal Expert Perspectives on

The Future of Bonuses & Profits at Law Firms

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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



RIMON

Joseph I. Rosenbaum

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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.**