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Alignment of Law Firm Compensation and Culture

For law firms, alignment of compensation is critical to both cultural engagement in, and accountability for, competitive strategy, especially given the “loose confederation” culture trait. Each member and employee of a firm or practice group must understand the firm’s vision and their expected role and responsibility for achieving the vision. They need to be recognized and rewarded for changes in behavior and accomplishments that contribute to the vision.

The current compensation systems of most firms are steeped in rewarding individual versus organizational or team performance. Individual performance and compensation metrics like billable hours, working attorney receipts, and client originations drive the behavior and culture of law firms. Seldom are non-billable investment type contributions to improve efficiency, profitability, or promote and drive a “firm first” or team philosophy adequately recognized and rewarded in compensation. For law firms to change behavior and transform their culture to support their strategy, they must develop corresponding compensation approaches to create the alignment.

The structural conflicts of interest in a firm’s compensation system can, and do, directly affect a firm’s culture and ability to efficiently support improved client service and value creation, as well as, limit the effectiveness of its strategic planning efforts. Some, like Edward A. Bernstein, have gone as far as to suggest that the American Bar Association consider a rule requiring that law firms disclose their partner compensation systems to their clients. [In his article](#), published in the Illinois Law Review, Bernstein examined the relationship between law firm compensation systems and partner incentives to serve firm clients. While he did not take a position regarding the better of the two typical approaches to law firm compensation, “eat-what-you-kill system” or “lockstep system”, he did suggest the following:

“...whatever the benefits of the “eat-what-you-kill system” and other motivational systems that shift risk to the partners, they come at a cost. The cost includes the creation of a potential conflict between the personal interest of the firm’s partners and clients that, among other effects, reduces the value of the firm’s services because acting in the best interest of a client exposes a partner to the risk of being second-guessed.”

While I do not share Bernstein’s opinion or suggestion for a new rule to require [law firms](#) to disclose their compensation systems to their clients, I do believe his article is another example of the internal struggle or force faced by law firms in finding the right compensation system, and the right balance, to drive behaviors that best serve client’s needs, the partner’s needs and the firm’s needs.

In the final analysis, if a [law firm](#)’s strategy is not aligned with its compensation system, then its compensation system must be part of its strategy. Without it, organizational alignment and transformative collaboration needed to drive strategy and innovative value creation will not occur.

If you’d like to discuss any of the issues raised in this article, please contact [George J Wolf, Jr.](#)