

An Obituary for the Billable Hour

A qualitative investigation of the barriers to implementing value-based pricing in the legal industry and the necessary capabilities to facilitate the transition.

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Due to intensifying competition and client expectations, law firms worldwide are starting to transition from the conventional billable hour model to value-based pricing (VBP) models. While promising significant efficiency gains, this transition entails fundamental challenges for all stakeholders and necessitates changes in firms' capabilities. Research on VBP's barriers and required capabilities is still nascent, particularly in a legal context. Thus, our study aims to identify said research gaps. We interview lawyers at business law firms using a qualitative and exploratory research method, contributing to both academia and practice. First, we contribute to VBP and existing literature by applying and enriching established theories such as the Capabilities Theory. We find novel barriers and capabilities relevant to the VBP shift compared to research in other industry contexts and uncover legal-industry-specific factors, including the traditional billable hour, lawyers' personality characteristics, deficient pricing and business acumen, and client and case uniqueness. Second, we contribute to pricing transformation research by illustrating VBP's individual, organizational, external, and industry-specific barriers as exemplary transformational shifts and suggesting key capabilities to overcome these. Lastly, our findings raise awareness among practitioners and contribute to an empirical understanding of VBP, presenting insights transferable to several other professional service industries undergoing similar shifts.

Keywords: Value-based Pricing, Legal Industry, Barriers, Capabilities Theory, Pricing Transformations

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Definitions

ALTERNATIVE FEE ARRANGEMENTS	Legal fee arrangement where a client does not pay based on an hourly rate for the legal service
ALTERNATIVE SERVICE PROVIDERS	An alternative to traditional law firms, offering legal-related services at a lower cost
THE BAR ASSOCIATION	An association of lawyers, commonly organized by country, with either mandatory or optional membership for practicing attorneys. Some have regulatory responsibilities of the legal profession in their jurisdiction (e.g., Sweden)
BILLABLE HOUR	Billing on the basis of hours based on an hourly rate
LAW FIRMS	A business entity consisting of lawyers that offers customized legal services to clients
LAWYER	A professional qualified to practice law that can advise and represent clients
LEGAL INDUSTRY	The legal industry, commonly referred to as the Legal Services Industry. Consists of lawyers and other legal practitioners (e.g., paralegal, notary public)
VALUE-BASED PRICING	A purpose-built model that combines various client- and value-oriented factors to arrive at a final price

*“It is not the strongest of the species that survives, nor the most intelligent that survives.
It is the one that is the most adaptable to change.”*

Charles Darwin

1. Introduction

The following section briefly introduces the (1.1) legal industry, its idiosyncrasies, and applied pricing methods to provide an overview of the research field and illustrate the motivation of our study. The section then aims to present value-based pricing, its expected benefits, and the complex shift towards it, which will serve to identify the (1.2) research gap, our (1.3) research purpose and questions, (1.4) expected contribution, and (1.5) our thesis' delimitations.

1.1 Characteristics and trends of the legal industry

Few industries are as long-standing and deeply rooted as the legal profession. According to our pre-study, the legal industry is distinguished by high levels of elitism and rigid hierarchical and bureaucratic structures. The industry is situated in an interconnected stakeholder network, including clients and the Bar association, exposing it to political, social, environmental, and regulatory influences (Pre-study). Despite being proven relatively change-resistant and resilient to external pressures over the years, current trends cause the very foundation of the legal industry to tremble: Not only more fierce competition and emerging competitors such as Alternative Legal Service Providers (e.g., the “Big Four”) but also ever-increasing client demands for efficiency and digitalized, integrated offerings exert pressure on law firms (Walker et al., 2021).

The Covid-19 pandemic and its immediate implications, such as remote work and increasing use of digital tools, impacted the work reality and priorities of (prospective) lawyers (Jones et al., 2022; Babbitz et al., 2020). Thus, many law firms are also challenged with attracting and retaining talents and fulfilling social and employee-oriented demands for more work-life balance and competitive employee benefits (ibid.). Lawyers, constituting law firms' most critical asset, are starting to criticize their excessive working hours and lack of well-being (Bloomberg Law, 2022). To stay ahead of the competition and clients' increasingly high expectations, practitioners are increasingly advocating revising the billable hour and the related incentive compensation system (Harper, 2013).

In this context, law firms worldwide have either started or are considering transitioning from the conventional billable hour to alternative fee arrangements and, specifically, value-based pricing models (De la Merced, 2015; Bloomberg Law, 2021).

“The legal industry is so traditional and conservative - the business model is a century old - there is room for change. Just like professional service fields, [...] value-based pricing could also be implemented within the legal advisory industry.” (Business Developing Manager, Pre-study interviewee 1)

1.1.1 The prevailing pricing method in the legal industry

Over the past 60 years, the billable hour has established itself as the legal industry's predominant pricing method (Felső & Selde-slachts, 2022), representing a long-standing tradition appreciated for several perks (Fortney, 2000). Externally, billing the client per hour quantifies and demonstrates the efforts invested in a matter toward the client and incentivizes lawyers to dedicate sufficient resources to a client's case (Rhode, 1985; Pilon, 2022). Internally, the billable hour serves documentation purposes and allows for staffing forecasts and flexible price and scope adjustments (Fortney, 2000; Felső & Selde-slachts, 2022). Simultaneously, the yearly billed hour target is a performance measurement tool and provides the basis for compensation, bonuses, and promotions (Fortney, 2005; Parker & Ruschena, 2011). Through this two-folded internal purpose, ease of use, and standardized application, the billable hour is historically perceived as a transparent and straightforward pricing tool (Pilon, 2022).

While appealing through its simplicity, the billable hour is increasingly criticized for several conceptual flaws. Firstly, solely counting the billable hours prioritizes quantity over quality, consumes valuable resources, and even rewards inefficiency (e.g., Fortney, 2005). Thus, the billable hour secondly slows down digitalization and the adoption of efficiency-increasing technology, AI, and machine learning (Brooks et al., 2019). Lastly, ever-increasing yearly hour targets are also criticized as the root cause of the industry's lack of work-life balance (Pilon, 2022; Baron, 2015; Alfini, 2005).

The criticism of the billable hour stems from various sources and indicates a need for transformative change (Krill et al., 2022; Liozu et al., 2012). Consequently, increasing

professional and academic attention is granted to a shift to alternative fee arrangements, specifically to value-based pricing (Hinterhuber, 2004; Liozu, 2017).

1.1.2 Introduction to value-based pricing

Introduced primarily in the context of industrial and physical products, the concept of value-based pricing (VBP) has slowly “infiltrat[ed]” many industries over the past 20 years as an alternative to the traditional billable hour (Liozu, 2013a, b). Through its inherent subjectiveness, a comprehensive definition of VBP is yet to be developed (Liozu et al., 2012). In this thesis, we refer to VBP as a pricing model based on the customer value a “product or service delivers to a segment of customers” (Hinterhuber, 2008b, p. 42). In legal practice, VBP usually entails collaboratively defining project milestones and incorporating factors such as urgency, lawyers’ expertise, and the firm’s unique capabilities (Liozu & Hinterhuber, 2013a, b). The most commonly considered VBP methods include fixed prices, budgeted fees with collars, success fees, reverse contingencies, blended rates, holdbacks, and risk mitigation billing (Crowell & Moring and Association of Corporate Counsel, 2012).

1.1.3 The expected benefits of implementing value-based pricing

Shifting from mere quantity to the quality of work is claimed to have several advantages (Ingenbleek et al., 2003). In theory, VBP allows attorneys to work faster and more efficiently, saving and re-allocating valuable resources to deliver even better results (Brooks et al., 2019). Freeing up capacity and incentivizing efficiency, VBP encourages using digital tools, AI, and machine learning to take over routine tasks, further increasing the quality and efficiency of lawyers’ work (ibid.). Consequently, VBP could increase firm profitability and bargaining power and provide a competitive advantage (Liozu & Hinterhuber, 2013a,b; Dolan & Simon, 1996; Anderson & Narus, 1998). A study by Hogan (2014) confirmed this positive effect on firm performance, showing that firms that implemented VBP increased their profits by 24% compared to industry peers. Emphasizing client value and priorities (Hinterhuber, 2008) while leading to more competitive prices, VBP is also highly appreciated by clients (Felső & Seldeslachts, 2022). Due to law firms’ high client-centricity, customer preferences, and competitors’ ability to serve them represent significant drivers of VBP (Brooks et al., 2019). From an individualistic perspective, researchers also postulated that shifting away from the

billable hour (targets) answers the intensifying demands for higher work-life quality and job satisfaction (Krause, 2019).

1.2 Research gap

While its proclaimed benefits, client demands, and other external pressures recently increased the academic and professional attention of VBP, it is considered the most challenging pricing methodology to implement (Forbis & Mehta, 1981; Ingenbleek & van der Lans, 2013). Only 17-20% of professional services firms have already adopted VBP (Hinterhuber, 2008a, b; Liozu and Hinterhuber, 2013a, b), including primarily first-movers in, e.g., the pharmaceutical, IT, and automotive industry (Hinterhuber, 2008). Scholars are thus increasingly concerned with identifying reasons for “its continued low adoption and high rate of failure” (Liozu, 2017, p.18) and started investigating how the implementation of VBP can be facilitated. Cressman (2010) and Liozu (2017, p.28), described VBP as “a science requiring capabilities,” however, pointing towards a general lack of in-depth understanding and significant research gaps.

Research on VBP and its implementation is still nascent and primarily investigated its overall conceptualization without providing (a detailed description of) potential barriers and facilitating capabilities and mainly focused on VBP in industrial and manufacturing settings (Hinterhuber, 2008; Liozu, 2017). Since the barriers hindering VBP cannot be “grouped [or] generalized for individual industries” (Steinbrenner & Turčínková, 2021, p.105), we expect the legal industry to present idiosyncratic barriers and, thus, also require unique capabilities in adopting VBP. Even though literature suggests certain barriers and capabilities that can facilitate the VBP shift, their relevance, applicability, and interpretations in the legal industry are yet to be explored. Further, existing research has centered around the tangible profitability aspects of VBP, taking an outside-in perspective (Töytäri et al., 2015, 2017). However, playing a central part in the shift, VBP first needs to be internally adopted by individual employees (Töytäri et al., 2017), deeming lawyers’ perceptions vital in the VBP discussion.

1.3 Purpose and research questions

The presented academic limitations pose an intriguing gap for further research in understanding and evaluating the legal industry-specific, internally perceived barriers and

capabilities of shifting to VBP. The purpose of our thesis is, thus, to address this research gap by examining the implementation of VBP in business law firms and the effect of their idiosyncrasies on the shift from a lawyer's perspective. By synthesizing empirics with literature, we aim to not only identify the barriers and capabilities and assess their importance, nature, and nuances. Capturing individual lawyers' perceptions of internal, organizational, and client-related barriers and capabilities, we aim to paint a more nuanced picture of the implementation of VBP in the legal industry, revealing the demands of an under-appreciated stakeholder. Thus, the research purpose prompts us to answer the following two research questions:

Research Question 1: What barriers hinder a shift to value-based pricing in law firms?

Research Question 2: What capabilities are needed to facilitate value-based pricing in law firms?

1.4 Expected contribution

As one of the first studies investigating the aforementioned research gaps, we expect this thesis to have both academic and empirical relevance. Academically, we anticipate contributing to pricing transformation and the VBP literature, inspiring future research. Further, our findings shall nurture a more thorough understanding of the previously insufficiently investigated VBP model, potential barriers, and required capabilities in such a complex transformational process. Despite a narrow focus on law firms, we aim to bridge research within the legal industry to other professional services firms, deeming our resource focus highly relevant to various industry contexts with similar characteristics..

Empirically, the thesis intends to encourage law firms and lawyers to reflect and prepare for the shift in billing practices. We further anticipate fostering a heightened understanding among legal professionals, the national Bar Associations, and decision-makers of how to tailor firms' resources and capabilities to this shift's new demands. Thus, this thesis aims to nurture the VBP debate within the legal industry with valuable insights into its barriers and how law firms can implement VBP and benefit individual lawyers, law firms, and the legal industry. Offering actionable implications on barriers and internal strategies to develop, the

paper can also assist practitioners in the professional services industry, including management consulting, investment banking, and auditing. Thus, our findings aim to render VBP beneficial to all stakeholders and facilitate overcoming hurdles around the disruptive shift.

1.5 Delimitations

Certain assumptions and restrictions are necessary to ensure the research's relevance and adherence to time constraints. This thesis will only assess the perspective of some parties affected by a pricing shift, focusing on the barriers and capabilities identified by individual lawyers. In addition, only business law firms operating in Sweden are included in the study. These factors potentially limit our study's generalizability. Nevertheless, the study is expected to contribute to a country- and industry-spanning understanding of the barriers and capabilities.

2. Literature Review

The following literature review aims to provide a general overview of the field, frame the research area, and illustrate the motivation and legitimization of our study. First, a focus is set on (2.1) the implementation barriers of VBP, complementing general barriers with potential legal industry-specific barriers. This section then outlines the (2.2) capabilities to facilitate VBP by first establishing a definition of capabilities, followed by a description of general capabilities and potential legal industry-specific capabilities, leading us to the (2.3) discussion of the presented barriers and capabilities.

2.1 Implementation barriers of VBP

As discussed, the low adoption of VBP has sparked increasing interest among researchers trying to identify barriers throughout the implementation process (Hinterhuber, 2008). In this pursuit, literature has discussed selected barriers in the context of individual industries and firms (Steinbrenner & Turčínková, 2021), also revealing different involved actors, stages, and organizational levels in which barriers occur (e.g., Töytäri et al., 2015). Generally, Töytäri et al. (2017), for instance, differentiate between 1) individual, 2) organizational, and 3) externally induced barriers to implementation, which reinforce each other across stages, levels, and players. The following section is thus structured as suggested by Töytäri et al. (2017), presenting a selection of these most commonly identified barriers by literature and lastly presenting research on legal industry-specific barriers.

2.1.1 Individual and cognitive barriers

Firstly, Töytäri et al. (2017, p. 243) specifically focused on individually induced “cognitive barriers” that “reflect innate beliefs and values,” interrelating with other organizational and external barriers and, thus, hindering the implementation of VBP in its very beginnings.

1) Lacking conceptual clarity and definition

Firstly, one of the most critical cognitive barriers is the lack of a common definition, sound understanding, and conceptualization of VBP (Liozu et al., 2012; Provines, 2010). Scholars partially explain this lack by VBP’s novelty being a generally under-explored pricing model that is only slowly “infiltrat[ing]” the corporate world (Liozu, 2017, p.19). Moreover, value is

a subjective, multi-faceted, and dynamic concept with different taxonomies and dimensions dependent on the context and individual evaluation (Töytäri et al., 2015). Consequently, VBP is problematized as an equally ambiguous, subjective, and contentious concept (Liozu, 2017).

2) Lacking expertise, experience, and skill-set

Related to the first barrier, many executives lack the required VBP knowledge, practical experience, and skill set to implement and apply VBP (Nagle & Hogan, 2006; Töytäri et al., 2017). Confirming this lack of pricing expertise, a study by Hogan (2014) found that 23% of marketing and sales managers do not understand their pricing strategy.

3) Prevailing traditions, misconceptions, and myths around pricing methods

Hesitation to implement VBP also originates from organizational and individual, commonly held beliefs, attitudes, and perceptions in favor of the prevailing pricing method (Töytäri et al., 2017), even referred to as “myths” (Liozu, 2017, p. 27). Market- or cost-based pricing logics are deeply ingrained in many firms’ DNA and established themselves as “the only legitimate way[] of pricing” (Hinterhuber & Liozu, 2015; Töytäri et al., 2017, p. 239), often representing a corporate tradition or habit (Kienzler, 2018; Steinbrenner & Turčínková, 2021). As a result, practitioners tend to underestimate the benefit of VBP and reject the concept as “impractical” (Nagle & Hogan, 2006) or “too costly to employ” (Liozu, 2015, 2017). Some executives even demonstrate a “dismissive attitude towards the importance of value-based pricing” (Töytäri et al., 2015, p. 241), perceiving VBP as a temporary trend and buzzword in management and thus generally lacking the motivation to change (Töytäri et al., 2017) and a “sense of urgency” (Kotter, 1996).

4) Profitability concerns

Cognitive barriers to implementing VBP further originate from prevailing profit concerns, expected decreasing revenues from underbilling the client and increasing costs from investing in implementing VBP, painting a lose-lose scenario (Hinterhuber, 2004; Liozu, 2015). The risk of losses due to inappropriately designed value-based contracts seems too high for many to even consider shifting (Raja et al., 2020; Liinamaa et al., 2016). Furthermore, the scope and expected profitability of VBP initiatives are difficult to define, measure, and demonstrate to decision-makers, deeming their outcome highly uncertain and unpredictable (Liozu, 2015).

2.1.2 Organizational and structural barriers

In this next section, we present the organizational and structural barriers hindering the implementation of VBP on a firm level as proposed by researchers. Provines (2010), for instance, explicitly focused on identifying the key organizational barriers that supposedly constitute the root causes of various other issues preventing the implementation of VBP.

1) Lack of top management support and prioritization

Being private but also organizational individuals with decision authority, top managers, and c-level executives are subject to cognitive barriers and preconceptions themselves (Töytäri et al., 2017). The presented cost and profit concerns and the uncertainty and complexity around VBP (Liozu et al., 2012), thus, often translate into a generally low senior management support (Hinterhuber & Bertini, 2011; Liozu et al., 2012b). This lack of top-level commitment and strategic prioritization of VBP is the leading cause of many failed implementation attempts (e.g., Liozu, 2017; Hinterhuber, 2008).

2) Lack of organizational buy-in and collective confidence

As a result of skeptical and uninformed employees and particularly the lack of leadership support, most companies suffer from a general lack of organizational buy-in, collective confidence in, perceived urgency, and legitimization of VBP as the new pricing logic (Kotter, 1996; Töytäri et al., 2017). Consequently, researchers agree that firms implementing VBP lack a long-term perspective and perseverance and the long-term change management necessary to roll out VBP and reap its promised benefits (ibid.; Liozu, 2015, 2014a, b).

3) Anticipation of transformational change

Another barrier is the fundamental challenges and the “deep transformational change” (Liozu et al., 2012, p. 205) across functions and stakeholders that the VBP shift entails (Teece et al., 1997; Zollo & Winter, 2002). Implementing VBP requires entirely new capabilities, practices, and even business models (Liozu et al., 2012; Nenonen & Storbacka, 2010). Furthermore, companies often lack a professionalization of the pricing function (Liozu & Hinterhuber, 2011) or such a designated function entirely (Provines, 2010), necessitating rudimentary investments. Taking these various required structural reforms together, VBP thus often presents itself as a complex endeavor and a “long, tenuous, and sometimes painful journey”

(Liozu et al, 2012, p. 205), which can significantly inhibit the organizational buy-in, reduce overall confidence and again, top management support (Töytäri et al., 2017).

4) Lack of supporting functions and structures

Additionally, many firms lack supporting resources and capabilities to successfully implement VBP, employing outdated IT and unstable communication systems (Liozu, 2015; Töytäri et al., 2017). Since these existing systems are “designed to support the traditional [...] business” (Töytäri et al., 2017, p.242), firms would need to adjust departments such as R&D, marketing and sales, and HR to the new pricing logic (ibid.)

5) Difficulties in designing and executing VBP

From a practical stance, scholars suggest that the design and execution of VBP and the development of a value assessment and VBP tool present further barriers (Liozu et al., 2011), which is rooted in the inherent complexity of value and general inexperience with VBP (Liozu, 2017). Thus, pricing practitioners struggle to scope the case, define clear goals and value drivers in advance and set competitive prices for each client segment (Hinterhuber, 2008; Liozu, 2017). Due to its “customer specificity” (Töytäri et al., 2015, p.53) and general information uncertainty and ambiguity (Liozu et al., 2012), the process of value quantification and assessment often presents a high level of cost and complexity, and, thus, a considerable barrier (Töytäri et al., 2017)

6) Difficulties in market and customer segmentation

Lastly, a barrier that is both connected to the organizational and external realm is the difficulty of efficiently segmenting the customer base (Hinterhuber, 2008; Liozu, 2017) to “identify high potential customers” (Töytäri et al., 2017, p.242). Companies often lack a deep understanding of their customers, business models, and value drivers, which is necessary for customer selection and VBP implementation (ibid.).

2.1.3 External client- and market-related barriers

Lastly, external barriers are presented, consisting of “assumptions and behaviors that prevail within a firm’s customer relationships and networks” (Töytäri et al., 2017, p. 242) and other client-related barriers. Due to the client-centricity of legal services, intensifying competition,

and highly knowledgeable and influential clientele, (the fear of) losing clients and the uncertainty of VBP demand among clients represents a barrier in itself (Dittmer, 2017).

1) Client skepticism

Since misconceptions and attitudes are held not only internally but also externally, skeptical client perspectives around the consequences of VBP for profitability, fairness, and quality prevail (Töytäri et al., 2015). Thus, it is often unclear if and under which circumstances clients prefer VBP over conventional pricing methods, as many buyers prefer acquainted practices over unknown (Töytäri et al., 2017).

2) Insufficient client relationship management (CRM) and value communication

Furthermore, there are barriers related to customer relationship management and external communication (Hinterhuber, 2008). Measuring and communicating the created value to external stakeholders (Hinterhuber, 2008) and designing go-to-market strategies for the new pricing logic (Liozu, 2017) can be challenging.

2.1.4 Potential barriers of VBP in the legal industry

As discussed, previous VBP research primarily focused on implementation barriers for specific contexts, such as medical or industrial organizations and their employees, deeming only some of the identified barriers relevant to the legal industry (Steinbrenner & Turčínková, 2021). Due to the limited similarity in their offering and business conduct, the involved stakeholders, and prevailing pricing tradition, we expect the nature of implementation barriers to deviate when examining the legal industry (ibid.).

1) Billable hour as performance and billing tool

Employees tend to be acclimatized to prevailing pricing logics with a long-standing tradition in the organization (Töytäri et al., 2015). In the legal industry, the billable hour has been the predominant pricing method for the past 60 years (Fortney, 2000). Through the two-folded purpose of the billable hour as a performance measure, this well-established model is operationally and culturally profoundly entrenched in law firms (Harper, 2013). Through many law firms' high market power, they not only lack the incentive to change the prevailing system but can even impose the billable hour on their clients (Felső & Seldeslachts, 2022).

2) Prevailing corporate culture

Uлага and Loveland (2014) further present the organizational culture and climate as additional barriers. The conservative culture dominant among lawyers and the legal industry might nurture unique preconceptions, attitudes, and beliefs, representing further cognitive barriers (Fortney, 2000; Töytäri et al., 2017). This culture also includes the tradition of the billable hour, the high level of internal competition, and a meritocratic work ethic (ibid.).

3) Unique cases and clientele

Furthermore, each client case's high unpredictability and uniqueness could present complexifying factors in setting a value-based price, as not all clients and areas are suggested as equally suitable for VBP (Töytäri et al., 2017). Additionally, with intensifying competition and highly knowledgeable and influential clientele, (the fear of) losing clients and the uncertainty of their demand for VBP represent another barrier (Dittmer, 2017).

4) Bar Regulations

Lastly, the legal industry is highly regulated and subject to (trans-)national legislation and associations such as Advokatsamfundet, the Swedish equivalent of the American Bar Association. This association also regulates law firms' pricing policies, which could pose unique barriers to the VBP implementation process in the legal industry.

Barrier Realm	Implementation barriers
1) Individual & cognitive barriers	<ul style="list-style-type: none">• Lacking conceptual clarity and definition• Lacking expertise, experience & skill-set• Traditions, misconceptions & myths• Profitability concerns
2) Organizational & structural barriers	<ul style="list-style-type: none">• Lack of strategic support & prioritization• Lack of collective buy-in & confidence• Anticipation of transformational change• Lack of supporting functions & structures• Difficult VBP design & execution• Difficult market & customer segmentation
3) External & client - related barriers	<ul style="list-style-type: none">• Client skepticism• Insufficient CRM & value communication
4) Legal industry-specific barrier	<ul style="list-style-type: none">• Billable hour as performance & billing tool• Prevailing corporate culture• Unique cases and clientele• Bar Regulations• ...

Figure 1. Overview of implementation barriers

2.2 Capabilities to facilitate VBP

Insufficient research has, to this date, explored the capabilities facilitating a shift to VBP (Teece et al., 1997; Zollo & Winter, 2002; Raja et al., 2020). Thus, this second part investigates the capabilities suggested by scholars, utilizing the definition proposed by Helfat and Peteraf (2003, p.999), suggesting that “organizational capability refers to the ability [...] to perform a coordinated set of tasks, utilizing organizational resources, [to achieve] a particular result.” We thus include more implicitly expressed capabilities falling under the “set of tasks” (ibid.) that facilitate the implementation of VBP. Further, we present both generalizable and legal industry-specific capabilities tailored to its unique requirements.

2.2.1 General capabilities to facilitate VBP

“Value-based pricing is not simply adopted but internalized through a long and purposeful process supported by a mindful, experiential, and transformative learning environment”

(Liozu et al., 2012, p.197)

1) Strategic leadership capabilities

Various capabilities at different organizational levels are vital to facilitate the shift to VBP. However, the change is argued to start with developing numerous leadership capabilities (Liozu, 2017; Nagle & Hogan, 2006). Liozu et al. (2012, pp. 197), thus, call for “champions” that “sense and integrate turbulence” and strategically prioritize and commit to VBP. Corresponding to Kotter (1996) and Provines (2010), organizations need to develop guiding coalitions with a strong vision and conviction that together contribute to a “center-led management” of the shift (Liozu et al., 2012, p. 197).

2) People management, motivation and communication capabilities

As the shift requires organization-wide “patience, perseverance, collective confidence, and tremendous sweat equity” (Liozu, 2014a,b, 2017, p. 22), it is also vital to break down organizational and behavioral barriers, inspire new internal beliefs, and mobilize employees (Chakrabarti, 1974). Thus, a “mindful leader” (Liozu et al., 2012, p. 198) plays an essential part in the transformation, energizing teams, driving the internalization of VBP, and motivating the necessary changes (ibid.). Communication and motivational capabilities then serve to expand novel internal perceptions and share visions throughout the company (Forbis

& Mehta, 1981), anchoring the new pricing logic into the organization's culture (Provines, 2010) and increasing organizational buy-in (Liozu and Hinterhuber, 2013a,b). Moreover, continuously communicating "internal wins" (Liozu et al., 2012, p. 202) can create trust and credibility throughout the organization (ibid.; Provines, 2010). Furthermore, inspiring and motivating employees should entail creating the right incentives (Hinterhuber, 2008) and implementing specific programs and activities to boost organizational confidence (Liozu et al., 2011) and ensure behaviors that support VBP (Nagle & Hogan, 2006).

3) Training, learning, and knowledge-sharing capabilities

Related to the identified knowledge gaps and change resistance, additional crucial capabilities are building and sharing organizational knowledge and understanding through training and experiential learning (Liozu, 2015; Nagle & Hogan, 2006). Firms must create a learning environment by making data and resources available (Nagle & Hogan, 2006), designing tailored training programs (Liozu et al., 2011), nurturing a trial-and-error culture (Pfeiffer & Sutton, 2006; Kolb et al., 2001), thus, investing in people development (Easterby-Smith & Prieto, 2008; Liozu et al., 2011).

4) Change management capabilities

Constituting a "transformational initiative" (Liozu et al., 2011, p. 198), change management capabilities are deemed essential for the VBP shift (Töytäri et al., 2017). These include understanding the transformational journey and its consequences to define the scope of the change, its affiliated activities, and costs, and plan for the change journey, e.g., by implementing regular change training and pilot projects (Liozu et al., 2011; Provines, 2010).

5) Client research and relationship management capabilities

The subjective and client-oriented nature of VBP requires prioritizing and nurturing client relationships and intimacy (Forbis & Mehta, 1981; Liozu, 2017). Thus, firms must develop extensive customer market research and segmentation capabilities (Ingenbleek, 2007; Nagle & Hogan, 2006) to effectively target and serve clients' idiosyncratic needs (Hinterhuber, 2008; Liozu, 2017). While differing from industrial demands, some marketing and selling capabilities can also be relevant in the legal industry as they create external buy-in, trust, and credibility (Liozu, 2017; Ulaga & Loveland, 2014). Leaders need to lobby for VBP (Hinterhuber, 2008) by quantifying, convincingly showcasing, and communicating both the

fact-based benefits of their offering and VBP itself to the client (Liozu, 2015; Provines, 2010). In retail or B2C settings, the skillful execution of these activities is summarized as brand image building (Steinbrenner & Turčínková, 2021) and value leverage-related capabilities (Töytäri & Rajala, 2015).

6) Structural, technical, and supporting capabilities

Scholars further suggest supporting the shift by adjusting firm routines (Hinterhuber, 2004) and carefully re-designing established organizational structures, processes, and systems (Liozu et al., 2011). These adjustments enable multi-functional teams, knowledge sharing, and cross-functional coordination (Liozu, 2017; Nagle & Hogan, 2006). Further, utilizing IT, customer, and process management analytics, data warehouses, and systems can foster the timely spreading of accurate information (Hinterhuber, 2008; Nagle & Hogan, 2006).

2.2.2 Potential capabilities to facilitate VBP in the legal industry

1) Pricing capabilities

Scholars emphasize the strategic importance of building VBP capabilities and professionalizing the pricing function (Dutta & Bergen, 2003; Johansson et al., 2012; Liozu & Hinterhuber, 2013b). Firstly, this entails developing pricing research capabilities (Liozu, 2017) and investing in related resources and processes to acquire value quantification and price-setting capabilities (Dutta & Bergen, 2003; Liozu et al., 2011). Specialized internal experts from “central or center-led pricing teams” (Liozu & Hinterhuber, 2012b, p.207) can further nurture firms’ pricing expertise and consult in pricing decisions. Finally, this capability includes designing comprehensive value documentation tools that capture legal cases’ unique value (Hinterhuber, 2004, 2008; Liinamaa et al., 2016).

2) Performance measurement capabilities

As prevailing systems and remuneration models are built to support traditional business models and pricing logics such as the billable hour model in the legal industry (Töytäri et al., 2017, p. 242), another relevant capability is revisiting and adjusting performance measurement and compensation systems, substituting for the billable hour and aligning incentives (Hinterhuber, 2008). Further, appropriate key performance indicators are vital to monitor and capture performance enhancements (Hinterhuber, 2004; Liozu et al., 2012).

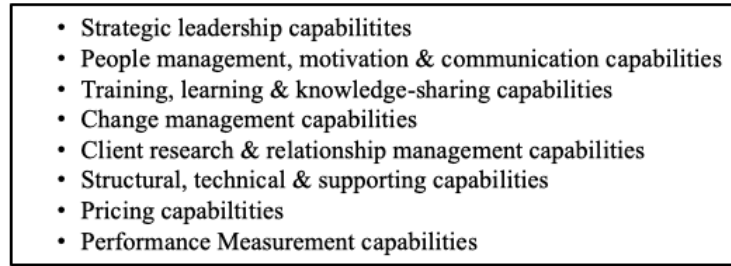
- 
- Strategic leadership capabilities
 - People management, motivation & communication capabilities
 - Training, learning & knowledge-sharing capabilities
 - Change management capabilities
 - Client research & relationship management capabilities
 - Structural, technical & supporting capabilities
 - Pricing capabilities
 - Performance Measurement capabilities

Figure 2. Overview of required capabilities

2.3 Critical discussion

The proceeding literature review shall not be perceived as an exhaustive but a curated selection with regard to our specific purpose and research questions. The choice, content, and structure of the presented barriers and capabilities are based on our understanding of conducted research. The capabilities have also been summarized into broader categories for simplicity and generalizability. We are, however, aware that many barriers and capabilities are inter-connected and even, at times, overlapping.

3. Theoretical Framework

To arrive at a context-appropriate theoretical framework that serves to close the identified research gap, this chapter presents and synthesizes selected theories (Errida et al., 2021). Firstly, the (3.1) identified implementation barriers are summarized and structured according to Töytäri et al. (2017). Proceeding, we present how the (3.2.) capabilities theory and (3.3) the 5-C's-Theory of pricing transformations by Liozu (2015) can be used to address identified barriers and facilitate the VBP implementation. Lastly, these theories are synthesized to arrive at our (3.4) theoretical framework.

3.1 Implementation barriers

Due to their high ambiguity and industry dependency, segmenting VBP barriers is considered a challenging endeavor (Steinbrenner & Turčínková, 2021). Instead, a majority of previous research focused explicitly on, e.g., individual, structural, leadership- or client-related barriers (e.g., Hinterhuber, 2004, 2008), lacking a well-rounded understanding of potential barriers and barrier groups. Thus, to explore this novel field and understand the identified barriers, Töytäri et al. (2017) suggest a more comprehensive perspective, differentiating between individually, organizationally, and externally induced barriers (Fig. 3). Adopting this broad categorization allows us to structure and analyze our findings while maintaining an explorative nature and fostering the generation of new insights (Saunders et al., 2009). Additionally, to account for the legal industry's idiosyncratic nature, we complement these categories with legal-industry-specific barriers to generate a more insightful and tailored framework. Lastly, the barriers of different realms are highly interrelated (Töytäri et al., 2017), which motivates complementing our framework with a dynamic component.

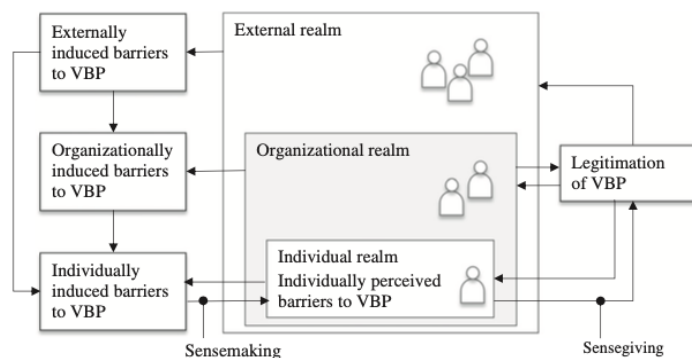


Figure 3. Töytäri et al. (2017) model

3.2 A capabilities perspective on the pricing shift

To address these identified barriers, we previously introduced the Capabilities Theory, which constitutes a well-established concept in business management (Teece et al., 1997; Zollo & Winter, 2002) that is frequently utilized in the context of VBP implementation. The theory of capabilities is rooted in the resource-based view (RBV), which adopts an inside-out perspective highlighting firms' portfolios of firm-specific resources and capabilities (Richardson, 1972; Barney, 1991; Feldman, 2020). Differentiated primarily by human and intellectual resources, this study focuses solely on the capabilities law firms and their lawyers can deploy to facilitate the VBP implementation. A dynamic capabilities perspective (Teece et al., 1997) is also deemed less suitable in investigating the law firms' transition to VBP due to their primary relevance in disruptive contexts as opposed to incremental changes, their ambiguous nature, and potentially unclear practical implications (Easterby-Smith et al., 2009).

Choosing capabilities as a theoretical lens for our study is based on various prior research streams and scholars such as Cressman (2010) and Liozu (2017, p. 28), claiming that VBP is a “science requiring capabilities.” As a broadly defined concept with wide applicability, several capability types have been identified. Investigating the implementation of VBP in industrial firms, Hinterhuber and Bertini (2011) and Johansson et al. (2012) suggest developing appropriate organizational capabilities (Töytäri et al., 2017). Dutta and Bergen (2003) further advise firms to develop pricing and value appropriation capabilities. In a legal-industry-specific context, the capabilities theory is especially relevant. Transforming a prevailing pricing model as profoundly intertwined with current operations and processes as the billable hour and overcoming the previously presented barriers is expected to require law firms to fundamentally modify their routines and capabilities (Töytäri et al., 2017).

3.3 A pricing transformation perspective on the pricing shift

Acknowledging the need to develop new capabilities, structures, and incentives, Liozu (2015) and Liozu and Hinterhuber (2014) presented the 5-C Model, a well-established model more explicitly tied to transforming organizational pricing. Cited and applied by various studies and VBP researchers, including Raja et al. (2020) and Töytäri et al. (2017), the model provides a theoretical foundation that is largely supported by the literature. The model breaks down the complex implementation into five essential dimensions to efficiently design and

implement pricing strategies: champions, capabilities, center-led management, change, and confidence (ibid.). We found the required capabilities described by scholars and their ascribed importance in the VBP shift to allow for categorization into the proposed five dimensions. Thus, the champion dimension corresponds to leadership, interpersonal, and motivational capabilities. The second dimension is dedicated to capabilities overall, which we refined to (value-based) pricing capabilities, accounting for their significance and adding a more in-depth pricing perspective (Dutta & Bergen, 2003). The change dimension can be tied to the aforementioned change management capabilities.

In contrast, the dimension of center-led management summarizes the need for both people management and communication and transformational, structural, and functional capabilities. Lastly, the dimension of confidence represents a crucial aspect throughout all barriers, capabilities, and stakeholders. Through its generalizability, high sensitivity to transformational change, and thematic parallels with previous research, the 5-C model is deemed valuable for analyzing the implementation of VBP in the legal industry. As a stand-alone model, however, it is only partially exhaustive and serves as a first sense-making approach to understanding and structuring identified capabilities.

3.4 Theoretical framework generation

Representing a relatively novel research field that lacks professionalization and conceptualization (Liozu & Hinterhuber, 2011; Liozu et al., 2012), a conceptual VBP model in the legal industry that considers its idiosyncratic barriers is yet to be developed. Thus, the presented theories around VBP, its barriers, and capabilities are now synthesized into a more comprehensive framework that combines these elements and illustrates their interrelationship. This framework serve as a theoretical lens for the subsequent study to analyze the barriers and identify the capabilities facilitating the VBP implementation in the legal industry.

According to Errida et al. (2021), individual models only partially suffice to capture and understand a firm's individual change management process and idiosyncratic factors. Thus, without claiming to be an exhaustive framework that captures every nuance, this proposed framework decomposes this complex yet poorly understood organizational transformation, providing a better understanding of barriers and capabilities. It incorporates different barriers

and barrier realms, organizational and pricing transformation theories, and is enriched with legal-industry-specific insights increasing its conceptual relevance and comprehensiveness.

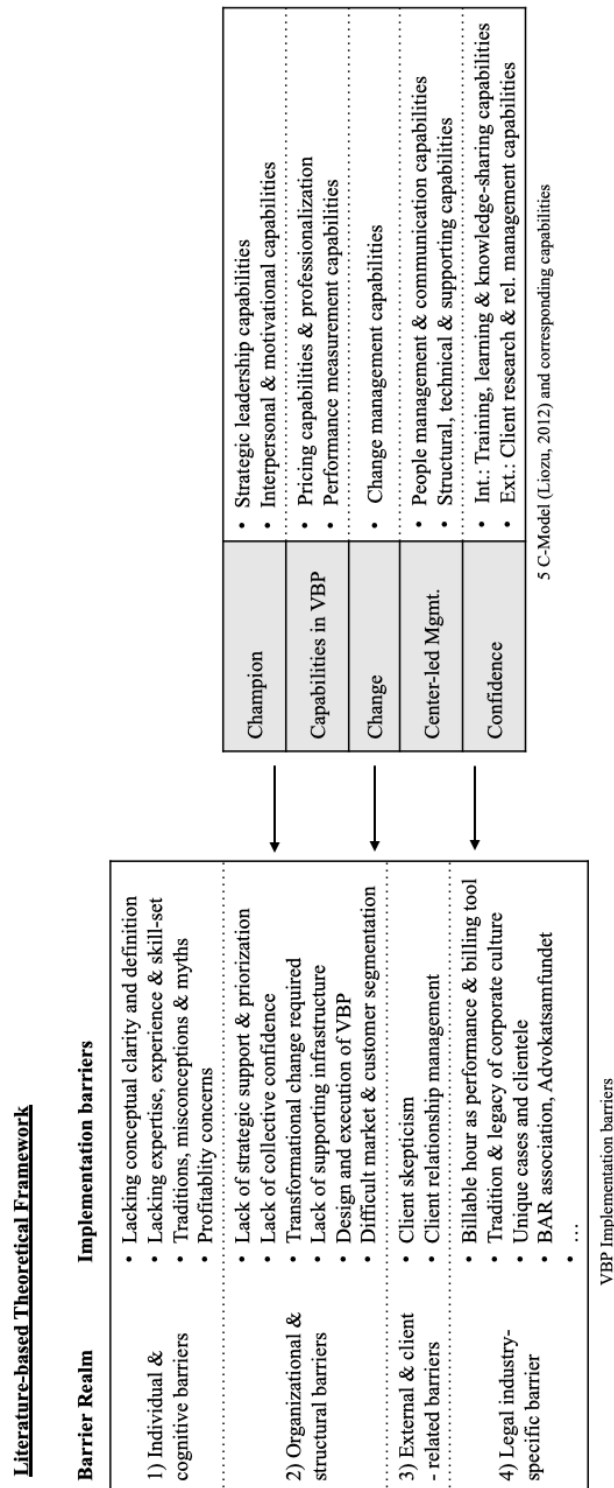


Figure 4. Literature-Based Theoretical Framework

4. Methodology

Our thesis' purpose is to examine the VBP implementation in business law firms and the effect of their idiosyncrasies from a lawyer's perspective, to identify the barriers and capabilities and assess their importance, nature, and nuances. The following chapter outlines the chosen methodology supporting our research inquiry. Firstly, the (4.1) research design and (4.2) research process are presented, followed by an outline of the (4.3) main study, the (4.4) qualitative data analysis, and (4.5) applied quality criteria.

4.1 Research design

To achieve our purpose, we have chosen to exploratively conduct our research with a qualitative and abductive research approach (Bryman & Bell, 2015). This section discusses this chosen research design's methodological fit with the research purpose and questions by reasoning our choice of (4.1.1) research method and (4.1.2) research approach.

4.1.1 Research method

Various scholars have previously investigated VBP in the context of other industries. This thesis, however, does not aim to confirm previous VBP research but to qualitatively and exploratively assess the discrepancies and similarities. Several factors further motivated the choice of our research method.

First, employing explorative and qualitative research is deemed appropriate due to the novelty and insufficient research (Alvesson & Sköldberg, 1994; Korstjens & Moser, 2017), providing an initial understanding and allowing for future research (Saunders et al., 2009). Second, the uniqueness of the legal industry, the contextual complexity, and the many plausible interpretations of barriers and capabilities require a method that captures more nuance and depth of the studied topics (Järvinen & Mik-Meyer, 2020; Saunders et al., 2009). Gathering data through qualitative interviews with lawyers on different levels thus allows for exploring their potentially varying experiences, opinions, and reflections on VBP and the change it entails, offering unexpected findings and more in-depth and multifaceted insights than comparable methods (Bryman & Bell, 2015; Järvinen & Mik-Meyer, 2020).

For these reasons, a quantitative method is less appropriate, as it rather captures numerical data on the frequency or amount of specific, pre-defined phenomena in a more mature research state (Korstjens & Moser, 2018; Pratt, 2009). Thus, given the discussion above, a qualitative method promises a higher methodological fit for our thesis compared to a quantitative method. When choosing the qualitative method, we were, however, aware of its criticism, e.g., regarding its transparency and transferability, which is further discussed in (4.4) by considering selected quality criteria.

4.1.2 Research approach

This thesis uses an abductive research approach constituting a compatible integrated middle ground between the two main approaches in qualitative studies - induction and deduction (Suddaby, 2006). This approach guides the researchers throughout the process allowing for existing theory, empirics, and research gaps to emerge, evolve, and influence each other in an iterative process (Bryman & Bell, 2015; Dubois & Gadde, 2002). Due to the new industry context, the relatively novel VBP research field, and our study's, thus, uncertain course, abduction is deemed a particularly suitable approach. It allows for continuous adjustments and novel creation of theoretical frameworks and concepts as we shift between theory and empirics and ensures our study's viability, the continued discovery of insights, and flexibility in interpreting empirics (Bryman & Bell, 2015; Dubois & Gadde, 2002; Alvehus, 2013).

4.2 Research process

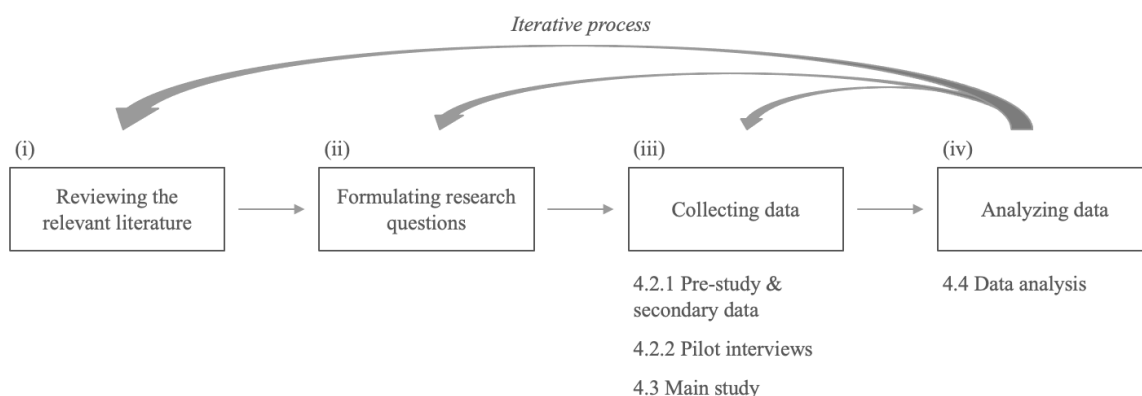


Figure 5. Overview of the iterative research process

This study employs an iterative research process which includes (i) reviewing relevant literature, (ii) formulating research questions, (iii) collecting data, and (iv) analyzing data. The following section outlines the two first steps within the (iii) data collection, consisting of our (4.2.1) pre-study and secondary data and (4.2.2) pilot interviews and laying the foundation for the main study. Due to their significance, the (4.3) main study and subsequent (4.4) data analysis are discussed in dedicated subchapters. Throughout the research process, we engaged in reflexivity by writing down our perceptions to systematically develop insights and critically review our involvement in the research and how it may have impacted our findings (Alvesson, 2011; Mills et al., 2014).

4.2.1 Pre-study and secondary data

Prior to the main study, we utilized secondary data and conducted a pre-study to strengthen our understanding of the legal industry's current pricing and emerging VBP model, assisting in formulating our research questions and purpose and ensuring that they center around relevant firm and employee-related factors in the VBP discussion (Saunders et al., 2009). These prior steps also served to select law firms for the main study's interview sample and construct the interview guide. The three interviews were conducted in English with pricing and business development experts at law firms in Sweden, the UK, and the USA and lasted between 45 to 60 minutes. Secondary data was gathered from primarily three sources to broaden our understanding of the research topic in the early phase and to grasp the ongoing developments and attitudes toward a pricing shift (Saunders et al., 2009). Data was collected from news articles (e.g., Advokaten, Legal Business), law firm websites¹ (e.g., pricing articles, press releases), and industry reports from, e.g., management consulting firms.

4.2.2 Pilot interviews

In the next step, three pilot interviews lasting between 45 to 60 minutes with three legal professionals were conducted to test our interview guide's questions ahead of the main interviews. They proved helpful in determining the average knowledge level of VBP among lawyers in Sweden and the relevancy of our (research) questions. As we identified differences in experience and understanding, we included a more thorough description of the VBP phenomenon. The interviews also allowed us to make minor alterations to the questions to

¹ For discretionary purposes, the sources will not be disclosed.

better accommodate the intended topics (Yin, 2015). Overall, the pilot interviews were satisfactory and provided robust insights into the research field. The last pilot interview was also selected as part of the main study.

4.3 Main study

The following section outlines the data collection method for the main study, which constitutes the final stage of our data collection process. In this part, we will outline the construction and execution of our interviews, presenting the concept of (4.3.1) semi-structured interviews, our interview (4.3.2) guide, (4.3.3) sample, and (4.3.4) setting.

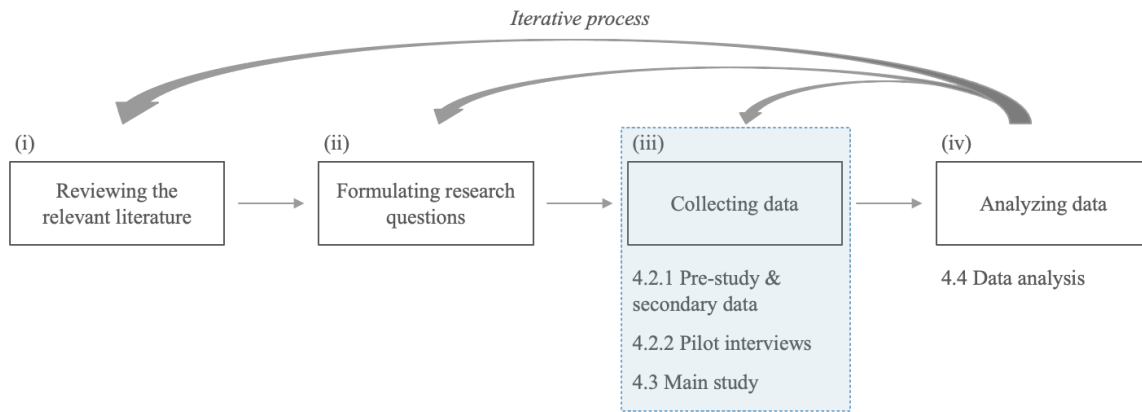


Figure 6. Overview of the iterative research process illustrating the third step

4.3.1 Semi-structured interviews

Semi-structured interviews were deemed appropriate for the data collection of the main study considering the thesis' sensitive and complex nature. Firstly, this interview structure allows for open-ended questions, inviting interviewees to express and elaborate their subjective attitudes, opinions, and reflections on the barriers and capabilities to facilitate VBP in an accessible manner (Saunders et al., 2009; Bryman & Bell, 2015; Edmondson & McManus, 2007). By not meticulously following a manuscript, interviewees are encouraged to influence the content of the interview, which enables extensions away from the initial question into related areas allowing relevant insights to emerge (Saunders et al., 2009). This choice, thus, nurtures an in-depth understanding of the complexities of the VBP topic for both parties

(Alvehus, 2013). Secondly, semi-structured interviews can capture nuances between answers (Saunders et al., 2009) as we provide all interviewees with the same initial structure to prompt the direction of questioning (Mills et al., 2014).

4.3.2 Interview guide

Before the main interviews, an interview guide with selected questions was prepared to set a direction and suitable scope while providing a solid structure for the data analysis phase (Appx. 2). The guide incorporates the insights of previous data collection steps and overspans five themes; (i) the participants' background, (ii) the pricing status quo, (iii) the VBP shift, (iv) the future outlook, and (v) concluding questions. In alignment with the thesis' research design, the construction of this guide followed an iterative process of extracting relevant results and continuously reviewing the interview guide (Dubois & Gadde, 2002). No contextual questions specific to the Swedish market were asked. Thus, the findings are also deemed representative and generalizable to an international context.

4.3.3 Interview sample

In light of our research purpose and questions, interviews with lawyers of varying expertise and experience currently active in business law and M&A were deemed valuable primary data sources. Thus, we conducted 25 interviews with 27 legal professionals at different levels (Tab. 1) utilizing generic purposive sampling to ensure interviews with relevant firms and individuals from the legal industry (Bryman & Bell, 2015). Due to the time constraint and geographical boundaries, the sample primarily includes law firms in Sweden. The firms were further selected by applying criteria such as the number of employed lawyers, business law and M&A activity, and ranking such as The Legal 500. From the selected 21 law firms, 14 accepted our interview invitation. The final sample of the main study consisted of two managing partners, nine partners, one senior counsel, and thirteen (senior) associates. Further outreaches ceased following saturation signals within the data collection process, which included repetitive insights and confirmation of the barriers and capabilities (Suddaby, 2006; Alvehus, 2013). Overall, the available sample broadly represents both seniority and gender in the Swedish legal profession and is deemed sufficient to provide an adequate understanding of the research topic. Moreover, it captures different firm cultures, practice areas, and individual perceptions.

To understand the role of legal regulations in a VBP shift, we also reached out to Advokatsamfundet, the Swedish Bar Association, which declined to participate. Practicing legal professionals at government agencies, corporate in-house legal departments, or other legal settings were excluded from the analysis as they fall outside our selection criteria.

Interviewee	Company	Role	Practice areas	Date	Location	Interview duration
1	A	Associate	Banking & Finance	20.09.22	Microsoft Teams	41 min
2	B	Associate	Real Estate & Commercial Agreements	29.09.22	Microsoft Teams	37 min
3, 4	C	Associate & Partner	M&A and Banking & Finance	30.09.22	Microsoft Teams	57 min
5	D	Associate	General Business Law	03.10.22	Microsoft Teams	39 min
6, 7	E	Associate & Partner	Commercial Law	04.10.22	Microsoft Teams	46 min
8	F	Associate	Financial Services	06.10.22	Microsoft Teams	41 min
9	G	Partner	M&A and Corporate Finance	10.10.22	Microsoft Teams	40 min
10	H	Partner	Private M&A and Outsourcing	11.10.22	Microsoft Teams	43 min
11	I	Associate	Banking & Finance	11.10.22	Microsoft Teams	45 min
12	H	Managing Partner	M&A and Equity Capital Markets	12.10.22	Microsoft Teams	36 min
13	F	Associate	M&A and Equity Capital Markets	12.10.22	In-person	50 min
14	I	Associate	Corporate Law	13.10.22	Microsoft Teams	43 min
15	I	Associate	Commercial & Trade	13.10.22	Microsoft Teams	34 min
16	I	Senior Counsel	M&A and General Employment Law	13.10.22	Microsoft Teams	42 min
17	J	Partner	International Commercial Law	14.10.22	Microsoft Teams	36 min
18	I	Senior Associate	Employment & Compensation	14.10.22	Microsoft Teams	34 min
19	K	Partner	M&A and Corporate Law	19.10.22	Microsoft Teams	40 min
20	I	Senior Associate	M&A	19.10.22	Microsoft Teams	34 min
21	E	Partner	M&A and Corporate Law	19.10.22	Microsoft Teams	36 min
22	L	Senior Associate	M&A and Corporate Law	20.10.22	Microsoft Teams	37 min
23	I	Managing Partner	M&A and Corporate Finance	25.10.22	Microsoft Teams	39 min
24	M	Partner	M&A and Capital Markets	26.10.22	Microsoft Teams	35 min
25	N	Partner	M&A and Capital Markets	11.11.22	Microsoft Teams	40 min

Table 1. Overview of the interviews

4.3.4 Interview setting

The main interviews lasted 925 minutes, with an average duration of 37 minutes. The interviews were conducted via Microsoft Teams due to personal preferences, the ongoing pandemic, and the interviewees' location and time restraints. While internet-mediated interviews are argued to encourage openness and honesty, we are aware of certain drawbacks, such as a lower level of interactivity and richness and spontaneity of communication (Saunders et al., 2009).

All interviews were recorded via a cell phone recorder and transcribed verbatim the same day, capturing nuances and allowing for a more thorough analysis (Alvehus, 2013). All interviews were checked to ensure accuracy by correcting transcription errors (Saunders et al., 2009). Most of the main interviews were conducted in Swedish with lawyers who declared fluent proficiency. Speaking the mother tongue of the interviewees facilitated the discussion and decreased the risk of miscommunication. The interview transcripts were translated into English for both researchers' understanding.

4.4 Data analysis

The analysis constitutes the last part of our overall research process presented in (4.2). The following section outlines the (4.4.1) data analysis method and process that provides the foundation for analyzing our empirical findings and the subsequent discussion.

4.4.1 Method and processing

As presented in section (4.1.2), our research follows an abductive approach, in which an iterative process of observing, theorizing, analyzing, and concluding was employed (Silverman, 2020). Our analysis is aligned with this approach, as we iteratively return to theories for new perspectives and ideas to answer the research questions and nuance the analysis (Alvehus, 2013). Extant literature thus provided a solid foundation for analyzing both the pre-study and the main interviews, providing an initial understanding of VBP and assisting in determining critical insights (Dubois & Gadde, 2002). As the analysis progressed, we continuously reflected and revised emerging findings to ensure a breadth and depth of the data collection and an adequate understanding of the research topic.

The analysis commenced simultaneously with the data collection, allowing us to validate our findings and better discern when data saturation was reached (Alvehus, 2013). For this analysis, we further deployed a thematic analysis method that organizes and categorizes interview data and extracts key insights and observations into distinct codes, categories, and themes (Daly et al., 1997). This method entails that each piece of data and more intangible attitudes, beliefs, and opinions are interpreted and labeled, grouping corresponding data using the same codes (Alvehus, 2013; Boyatzis, 1998). These codes are then grouped and compressed into broader categories. In the final step, to support a meaningful analysis, the categories are aggregated into overarching themes (Saunders et al., 2009).

Firstly, individual lawyers' interview transcripts were analyzed independently by both researchers to eliminate biases (Bryman & Bell, 2015). Close and repeated engagement with the data was maintained, and the transcripts were read several times (Mills et al., 2014; Alvehus, 2013). Applying the thematic analysis method, this step provided two individual sets of codes with descriptive labels.

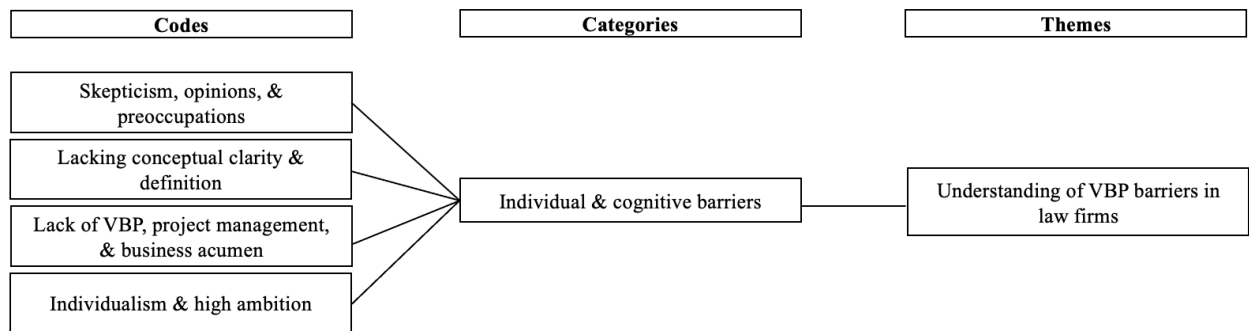


Figure 7. Excerpt from the data analysis, e.g., of VBP barriers

Each code represented detailed individual barriers, e.g., “lack of leadership and prioritization,” and capabilities, e.g., “change management capabilities.” The two code sets were then updated in a joint discussion and aggregate evaluation of the individual responses, resulting in a set of 26 codes (Järvinen & Mik-Meyer, 2020). These were then organized into a smaller set of 8 categories based on their connections to barrier realms and capability categories. Fostering a robust understanding of the topic, we aggregated these categories into two overarching themes (Saunders et al., 2009): the barriers and capabilities to facilitate VBP in the legal industry. The rigorous coding, thus, led to 26 codes, eight categories, and two themes (Fig. 6).

4.5 Quality of study

Since qualitative studies are sensitive to subjective interpretations and internal biases, the following section considers the quality of our study by applying the criteria of (4.4.1) credibility, (4.4.2) dependability, (4.4.3) confirmability, (4.4.4) transferability (Bryman & Bell, 2015; Lincoln & Guba, 1985), and lastly (4.4.5) the ethicality of our research and analysis.

4.5.1 Credibility

Credibility is a crucial criterion to assess the quality of a qualitative study, measuring the truth value and completeness of our conclusions and the degree to which our findings result from credible information, accurately reflecting reality (Roller & Lavrakas, 2015; Yin, 2015). In proceeding subchapters, we argued for the fit between our study and the collected data, ensuring that our interpretations correspond to the original data (Korstjens & Moser, 2018;

Lincoln & Guba, 1985). Since we are exploring a relatively novel and underrepresented field, we ensured our findings' credibility by synthesizing well-established theories with rich empirical data from explorative interviewees. We further interviewed lawyers from various domestic and international law firms at different hierarchical levels to achieve a representative sample and, thus, credible results. When conducting the interviews, the interviewers alternated between questions to avoid biases. Insights during the interviews were also repeated to the interviewee to ensure their correctness. The key conclusions were then drawn by combining different interviewees and sources.

4.5.2 Dependability

Dependability measures the steadiness of our findings over time (Korstjens & Moser, 2018; Lincoln & Guba, 1985). By basing our study on a review of established and novel literature, we developed an in-depth understanding of VBP, prevailing pricing methods, the legal industry, and these phenomena's development over time (Tracy, 2010), compensating for the shorter time horizon of our study (Bryman & Bell, 2015). For this purpose, our interview guide also includes questions regarding the past, current, and future state of VBP, offering a comprehensive view of the developments in this field over time. This approach helps produce similarly dependable conclusions if conducted over a more extended period (Korstjens & Moser, 2018; Lincoln & Guba, 1985).

4.5.3 Confirmability

Confirmability assesses whether the findings are independent of the researcher and interviewer, their belief system, and perspectives (Korstjens & Moser, 2018; Lincoln & Guba, 1985). To ensure this, we carefully documented, stored, and revisited all stages of our research - from the initial research, the sample selection, the interviews, and the analysis of their transcripts. We utilized open interview questions and transcribing services and included various direct quotes from our interviewees to ensure an unbiased, objective presentation and interpretation of our findings, minimizing personal influence (Bryman & Bell, 2015; Korstjens & Moser, 2018; Lincoln & Guba, 1985; Tracy, 2010). Throughout the analysis, we adopted a "devil's advocate" perspective, frequently auditing our data for and incorporating disconfirming evidence, uncovering potential biases, and critically evaluating the confirmability of our analysis and findings (ibid.).

4.5.4 Transferability

Transferability refers to the degree to which our findings are transferable to other contexts, industries, and firms undergoing similar (pricing) transformations (Bryman & Bell, 2015; Korstjens & Moser, 2018; Lincoln & Guba, 1985). However, as qualitative research entails an in-depth examination of a smaller sample, it tends to be more contextually unique (Bryman & Bell, 2015). Thus, we illustrate individual contexts, idiosyncrasies, barriers, and capabilities in rich detail to enable scholars and practitioners to assess the relevance and transferability of our study's results to their circumstances (Bryman & Bell, 2015; Korstjens & Moser, 2018; Lincoln & Guba, 1985; Tracy, 2010). We also eliminated the risk of producing non-transferable findings by choosing a representative sample with features common to most law and professional service firms, asking industry- and firm-specific but also general pricing and change management questions.

4.5.5 Ethical considerations

Conducting qualitative interviews with human participants, we focused specifically on fulfilling ethical research requirements of 1) information, 2) consent, 3) confidentiality, and 4) use requirements (Vetenskapsrådet, 2002). Generally, we considered the interviewees' privacy, dignity, and autonomy, complying with GDPR regulations and minimizing the risk of any harm done to them during our research. Before conducting our research, we discussed the ethicality of our research topic and study design with our supervisor and other SSE faculty members. To fulfill the 1) information requirement, we communicated our study's and interviews' context and purpose, providing our interviewees with all information that could affect their consent to participate. Further, we will also communicate the results to all participants. In this context, we also asked for consent to record the interview and participate in our thesis while ensuring that no sensitive data, including the interview recordings, would be stored after completing the thesis, thus fulfilling requirements 2) and 4). Complying with requirement 3), all interviewees were promised confidentiality and anonymity to protect our subjects' privacy and ensure the thesis' integrity. We also communicated that all questions were optional and interviews were voluntary, allowing the interviewees to feel comfortable expressing their thoughts and openly discussing the research topic.

5. Empirical Findings

The following chapter presents our empirical findings with regards to the (5.1) current state of pricing, (5.2) observed trends and urgency to shift, followed by the (5.3) barriers to VBP implementation, and lastly, the (5.4) factors and strategies that facilitate a VBP implementation. Anonymized interview quotes are included to support each section.

5.1 Current state of pricing

The interviewed lawyers stated to employ the billable hour as a primary billing and performance measurement tool in most business law cases, serving as the basis for compensation and promotion. All interviewees mentioned certain targets and bonus systems directly or indirectly tied to the billable hour, often depending on the seniority level. However, the interviewed firms usually apply a mix of billable and non-billable hour factors in billing and evaluating lawyers' performance. The current system seems generally tolerated as a relatively fair and transparent tracking tool. Nevertheless, some interviewees criticized the billable hour for incentivizing overtime and inefficiency and even described it as an "unsophisticated tool to bill the client" (Senior Counsel, Interviewee 16).

"The billable hour is a very simple yardstick which makes it predictable for us as lawyers to know what we can get in bonus." (Senior Associate, Interviewee 20)

VBP, however, progresses slower than expected, despite being discussed to a certain degree. Even though the interviewed firms are already utilizing VBP in specific practice areas with specific clients, such as success and fixed fees in transaction cases or IPOs, interviewees shared that there is no application on a broader firm level. Generally, VBP was found to be at a nascent state and employed at "unsatisfactory levels." (Associate, Interviewee 8).

"I think we work with (VBP) but not consciously." (Partner, Interviewee 4)

5.1.1 Perceived trends and urgency to shift

Discussing the VBP shift, many commented on the urgency of change of the century-old business model, the general low well-being, and the high perceived stress that they linked to the current billing and compensation system. Our interviewees further emphasized external

trends such as fierce competitive pressure primarily tied to new players offering standardized legal advice at low prices, such as ALSPs and online-based law firms, or the prevalence of technological tools used by industry-leading competitors. Moreover, many commented on the changing legal workforce and new priorities of young lawyers, increasingly choosing careers and employers that provide a higher work-life balance. Lastly, the current recession is perceived to slow down the undergoing transition of VBP, as the primary focus of law firms shifts to maintaining clients and projects.

5.2 Empirical findings on barriers to VBP implementation

This part outlines the barriers implicitly or explicitly identified and perceived by the interviewees as impeding a shift to VBP. Simplifying the complex network of barriers mentioned, we structure the presented findings broadly into individual, organizational and extra-organizational barriers (Töytäri et al., 2017), listing barriers from most to least frequently mentioned. No judgment or deeper consideration has been employed to ensure that the chapter maintains as descriptive as possible.

5.2.1 Individual-related barriers

Various individual and cognitive barriers were either directly mentioned or implied by the interviewees and related mostly to perceptions and opinions around VBP, the individual's resistance to change, or a lack of knowledge. Firstly, it is apparent that there is often *skepticism and no unanimous opinion* on VBP and its potential benefits to the legal industry. This skepticism was commonly reasoned with the perceived benefits of the billable hour and prevailing preoccupations around VBP. These preoccupations range from ethical to quality concerns, such as risking impartiality using success fees or causing lawyers to rush through cases and incentivizing the production of lower quality and more standardized products, which could eventually impact profitability negatively. Some also questioned the beneficial effects of only abolishing the billable hour, claiming that it could have a neglectable or even negative effect on work-life balance and company culture. Surprising was the amount and variety of opinions and arguments: Partners were significantly more favorable toward the pricing shift, whereas many associates were surprisingly reluctant, not sharing the enthusiasm of their superiors.

“VBP would possibly lead to a reduction in quality in cases where you might have to scrape something together quickly at the end.” (Associate, Interviewee 13)

Some respondents shared more positive opinions about VBP, specifically more senior lawyers with extensive VBP experience and understanding.

“I am truly excited about the value-based model even though I can seem a bit cynical and a little bit skeptical.” (Partner, Interviewee 10)

This also corresponds to the identified barriers of *individual deficit of VBP knowledge and experience*. Many associates expressed that they “have not heard of (VBP) before” (Associate, Interviewee 13) or lacked sufficient understanding of the concept, requiring further elaboration on its definition. Other interviewees were either unaware of VBP or were not knowingly applying it, calling it different names depending on the firm and lawyer. Thus, many interviewees found it hard to imagine a VBP tool. Some of the interviewed lawyers developed unanswered, almost rhetorical questions as to how value would even be defined, quantified, and priced without the billable hour. This individual lack of essential knowledge was also described to translate into an *organizational knowledge deficit in pricing and VBP*. Not solely the individuals but firms as a whole often lack experience, tools, and professionalization of the pricing function, which was claimed to potentially result in miscalculations or underbilling.

“I think (with VBP) it might be difficult to define what value we bring to a client and to explain and justify this value and also to concretize and convert that into money.” (Partner, Interviewee 24)

In relation to this, some interviewees expressed a high level of uncertainty around pricing, VBP, and the development of the legal industry.

“I do not really know what would happen if we stopped caring about hours.”
(Senior Associate, Interviewee 18)

Furthermore, many interviewees pointed to a *lack of project management and business acumen*. As a result of this “general business knowledge” (Partner, Interviewee 24) and project management skills, some interviewees anticipate difficulties in estimating the scope

and expected time of projects which is vital for implementing VBP. Consequently, many stated to prefer billable hours as a more straightforward tool that would allow individual lawyers to transparently estimate the case scope and track and document their contribution. Due to the perceived uncertainty with VBP and the billable hour's benefits and tradition, some interviewees concluded that lawyers might be reluctant to undergo a significant change.

"I think there is a knowledge deficit in firms. We are not used to working with strict project management, which is required when working with budgets."

(Partner, Interviewee 17)

Interestingly, many interviewees mentioned or demonstrated most lawyers' unique, often *individualistic, and highly ambitious character*, which can inhibit a VBP shift. Many fear that their work is not seen and appreciated without the billable hour to measure and compare the hours. Both during our interviews and through their statements, our interviewees understood themselves as hard-working high performers who prioritize work over personal life. They often claimed to be motivated by yearly billable hour targets and generally high salaries, the feeling of contributing to the firm and client, and the "rush of working long hours." (Associate, Interviewee 8).

"Everyone who becomes a lawyer has been a high performer all their life, so you are driven by billing hours" (Associate, Interviewee 19)

Lawyers additionally claimed to be very resilient, perceiving stress as an inevitable part of the profession and indicator of productivity and personal achievement. Even though the interviewees acknowledged the billable hour's flaws, such as high-stress levels and lacking personal life, they often relativized their working hours and ended their statements on a positive note. Concluding, interviewees agreed that "this profession is not for everyone" (Partner, Interviewee 17) and entails a distinct character that can present an additional barrier.

"Stress does not have to be a negative thing - I think it is needed to perform."

(Associate, Interviewee 6)

5.2.2 Organizational-related barriers

Another barrier frequently highlighted by interviewees in most business law firms is the 1) culture.

“I think it is very much a cultural question. If that changes, I think everything else will change.” (Associate, Interviewee 8)

In this context, respondents described two facets of the *inherent culture*: a) *the long-standing tradition and internal conservatism* and b) *individualism and meritocracy*. Firstly, most interviewees emphasized that the inherent conservative culture, with the current business model and billable hour being deeply rooted in tradition, inhibits a shift to VBP. According to our interviewees, the perceived success of this “century-old business model” (Senior Counsel, Interviewee 16) has led to its broad legitimization among lawyers and, specifically, partners.

“Many think that what we have done has always worked - why should we change it.” (Managing Partner, Interviewee 23)

The interviewees also pointed to the slow-moving nature of the firm, delayed adoption of novel tools, and overall change resistance, which is “historically not welcoming change” (Senior Associate, Interviewee 18). For instance, although being discussed, AI and other novel tools in most industries today are perceived skeptically in the legal industry.

“Law firms and the legal profession itself are very conservative and do not like change.” (Partner, Interviewee 7)

The second part of the cultural barrier ties to the b) individualistic and meritocratic culture, sometimes referred to as an “elbow culture” and characterized by direct comparison and competition among high-performing lawyers. Our interviewees described this as a reinforcing cycle of individuals, their interaction with similarly competitive individuals, and the meritocratic firm culture. Law firms attract and recruit ambitious top-of-the-class individuals. At the same time, the current performance system with the billable hour nurtures a culture of

long hours, incentivizes performance, and reinforces a competitive and high-performing culture.

“The people who become lawyers are the ones who have been high performers all their lives.” (Associate, Interviewee 3)

According to our interviewees, a hype around hard-working business lawyers and an image of high prestige, profits, and performance is circulating through the corridors. In this hype, the billable hour is claimed to play a driving role, enabling direct comparison and praising performance and hard work.

“The business law firms like to brand themselves as this hard-working or hardcore environment. You create a hype around it.” (Associate, Interviewee 22)

Interestingly, many claimed that the inherent competitive culture would not change by abolishing the billable hours as lawyers will find a substitute to measure and compare performance and, thus, exert pressure on themselves and others.

“Just because you take (the hours) away, you are still in an environment where you see other people have things to do. If you take that away, I think something else will affect the stress.” (Associate, Interviewee 2)

Tying the discussion of VBP directly to abolishing the billable hour, many were secondly concerned about *the profound link between the billable hour and the performance and compensation system*. The billable hour is largely perceived as a convenient and transparent internal performance tracking tool serving as a basis for bonuses and career advancements. Without the billable hour, some interviewees also wondered “how to get people motivated” (Associate, Interviewee 14).

“Internally, I would say (a major obstacle in the process) is the measurement system and ultimately the performance distribution and compensation models.”
(Partner, Interviewee 24)

Many interviewees also pointed towards the billable hour’s benefits in internal budgeting, staffing lawyers on cases, and planning capacity and claimed that it would not require an in-depth determination of scope, time, and additional resources prior to a case. Thus,

abolishing the billable hour as a convenient billing tool would entail structural challenges of broadly adjusting firm structures and functions and adopting a new system.

“It would be a challenge at first to know how to staff projects and how much people should work.” (Senior Associate, Interviewee 20)

Furthermore, it was commonly mentioned that *the case and practice area uniqueness* could represent a barrier to a broad VBP implementation. According to our interviewees, how clients are billed can vary heavily from case to case and between law firms. As each case is highly unique, dynamic, and unpredictable in its course of events, there would often be no linear relation between a case’s worth and its final bill, making a VBP approach hard to apply in a fair, consistent, and cost-efficient way. Overall, a different scope of VBP would be applicable depending on the case and individual circumstances. While respondents described it as relatively easy to employ in transactions, due diligence, GDPR, and legal analyses, many saw difficulties in using VBP in disputes, for instance. Also, some interviewees mentioned that within these areas, only specific parts, such as “litigation assignments” (Managing Partner, Interviewee 19), were suited for VBP.

“I think in almost every case, things come up that you have to handle and that you could not foresee, and it gets more complicated.” (Associate, Interviewee 15)

Further, some respondents also addressed various *leadership-related challenges*, the partner model, and their management skills, as the VBP shift would put “a lot of pressure” (Partner, Interviewee 4) on partners, requiring high efforts and resources. Many interviewees perceived the hierarchical partner model and partners’ change-resistant behaviors as barriers. Often, leaders in law firms would also not strategically prioritize VBP while not necessarily being trained or skilled in people management. Interestingly, among these critics were also partners themselves.

“Is the partner model the best model for professional services firms? I do not think so. And also, the issue is not driven very much from us.” (Managing Partner, Interviewee 23)

Our interviewees further assumed that implementing VBP in large organizations entails difficult, *large scale and “monumental change in the way of doing business and managing*

the organization internally.” (Senior Associate, Interviewee 22), which represents a barrier in itself.

“I think the firm will need to change at its core for the (VBP) model to be successful.” (Partner, Interviewee 9)

5.2.3 External-related barriers

Additionally, it is evident from the interviews that lawyers are aware of many industry-related barriers and their implications. Firstly, the interviewees described the legal industry’s *complex, shareholder-driven network* of competitors, clients, and the broader legal community, including law schools and governments, as potential external barriers.

“In a shareholder-driven organization, there are many wills to be taken into account.” (Partner, Interviewee 21)

Most commonly, many interviewees were concerned with the clients, and their demand for or reaction to this shift, identifying “the client (as) the roadblock” (Partner, Interviewee 17). Corresponding to the barrier of case uniqueness, law firms also serve *clients with varying natures, cultures, and pricing preferences*. Thus, it was also emphasized that not all clients would be suited for or even willing to apply VBP. Interviewees commented on the variety of opinions on VBP and the heterogeneous demand of the clients for alternative pricing. There were also vast differences in the optimism of interviewees on the overall receptiveness and acceptance of clients. Due to a high client bargaining power, law firms would be primarily driven by client demand, dictating the scope and speed of VBP implementation. However, this demand was described as resulting from clients’ culture and concerns around VBP’s impact on profit and quality.

“Different groups of clients would be more open to VBP depending on their background and how close they are value-based themselves.” (Associate, Interviewee 5)

Firstly, similar to the barrier within law firms described above, their clients, competitors, and the legal community would often demonstrate a *conservative culture and resistance to change*. Furthermore, interviewees claimed that many clients themselves employ lawyers or

legal departments who are equally accustomed to the billable hour model. Thus, they suspected clients of having certain preoccupations around pricing methods, expecting a more extended transition period to convince clients of VBP's benefits.

"I think there is a conservative culture on both sides - sellers and buyers of our service." (Senior Counsel, Interviewee 16)

Secondly, interviewees also saw *clients' increasing demands in quality, speed, and efficiency* as a challenge since missing these high standards under VBP could cause valuable clients to churn. In this context, one interviewee even described clients as increasingly "ruthless," (Partner, Interviewee 7) hypocritically demanding diversity and good working conditions while demanding unsustainable working hours and perfect results around the clock.

"I imagine some clients would not be in favor. But it depends on what VBP's benefits are." (Associate, Interviewee 14)

In addition, *clients' cost or profitability concerns* about VBP were claimed to present another barrier, as they usually request accurate time and cost estimates and prefer any billing method that leads to the lowest price tag. For many clients, the billable hour would, in this context, be a transparent tool to hold law firms accountable and scrutinize the quality and invested time and effort put into the case. Abolishing the billable hour could, thus, decrease client demand and firm profitability.

"There is obviously a market pressure from clients to be cost efficient: If they ask multiple law firms, they would probably pick the cheapest one." (Managing Partner, Interviewee 12)

Interestingly, almost all interviewees emphasized the significance of the *Bar Association* as an initial roadblock for most European countries and could recite the regulation concerning fair pricing and success fees during the interview. According to our interviewees, the current ethical guidelines ensure the independence and impartiality of lawyers and reasonable price setting. They further argued that the Bar Association would not inhibit a pricing shift or success fees per se. However, a new pricing model, such as VBP, would need to be approved.

“You have to start from the rules of legal ethics, which are strict.”

(Associate, Interviewee 5)

However, there were also considerable differences in how interviewees perceived the Bar’s regulations concerning VBP. While some identified these as the most urgent barrier to address, others questioned whether the Bar would constitute a significant barrier at all. Similar to law firms and their clients, the Bar is also described as slow-moving and change-averse, not necessarily prioritizing VBP.

“VBP is clearly not one of the top 10 issues the Bar is working on right now”.

(Managing Partner, Interviewee 23)

5.3 Capabilities facilitating the implementation of VBP

In this section, we also structure our findings from most to least frequently mentioned capability in the interviews. Firstly, many interviewees mentioned that law firms must adjust their performance measurement and compensation tools and criteria to facilitate a shift to VBP, often summarized as the capability to *redesign performance and compensation systems effectively*.

“For us, it would not work unless you redesign the bonus system.” (Associate, Interviewee 15)

Interviewees highlighted that, without the billable hour as a tracking tool, the new bonus and performance system must instead be based on and complemented by providing detailed feedback and applying “softer” performance metrics. The new system would, however, need to be equally motivating and transparent and provide a sense of individual appreciation.

“Without the hours, it would require work within the organization and a bigger change in how firms give feedback to employees and show they are valued and contributing. Removing the hours as a measurement, firms would not have a well-organized system for that.” (Associate, Interviewee 1)

Many respondents argued for the necessity of *knowledge creation and knowledge management capabilities*, creating or investing in a system of systematically educating and training employees in pricing, business, and project management. This knowledge would also

need to be collected and shared throughout the organization to create higher buy-in and facilitate a larger-scale implementation of VBP. Some interviewees described having already started to build such systems.

“We have some knowledge management within the firm, where we try to build knowledge. It is perhaps not a very structured and dedicated way. Everyone in our group needs to keep reading and learning, following new developments.”

(Associate, Interviewee 3)

Further, to support VBP, many interviewees explicitly outlined the need to develop a *pricing capability* for lawyers to better price and scope a project. This capability would include effectively segmenting clients and cases and defining, quantifying, and assessing value. The interviewees suggested that more progressive or less price-sensitive clients with experience in buying legal services and or with whom they have long-standing relationships are most suitable for VBP, such as private equity and investment banking firms. They also proposed to start with standardized bulk projects with low uncertainty levels and well-defined workstreams and set structures - or on the other hand, very complex and strategically and financially valuable cases. Interviewees also mentioned that a comprehensive database collecting and providing detailed data on the pricing of previous projects is required to nurture pricing knowledge.

“You need to create systems and collect data historically on how much things have cost and then break this down.” (Senior Associate, Interviewee 22)

Referring to best practices in their firms, some of our interviewees suggested implementing a (more) sophisticated, dedicated pricing resource or function and pricing committees to assist lawyers in the pricing and billing process.

“We have a (new) pricing resource, which is super good for all the big requests for proposals. They are sent to the pricing committee, who are good at quickly and sophisticatedly setting what fees to use, what scope, and the profitability of that.” (Managing Partner, Interviewee 23)

The interviewees also highlighted the need to work with more templates and an inventory of assisting documents, surprisingly, even suggesting looking into AI and technological

solutions. Lastly, pricing and VBP knowledge and confidence were also claimed to increase in experience, encouraging practitioners to experiment and approach VBP with a trial-and-error approach, starting, e.g., with pilot projects before rolling it out on a large scale.

“With automation and technological solutions, we can be more efficient and move toward VBP.” (Partner, Interviewee 9).

In addition to internal stakeholders, interviewees perceived it as vital to address external interests and nurture their *network and stakeholder management capabilities* when transitioning to VBP, referring to the aforementioned ever-increasing bargaining power and demands of clients. Not only might the shift to VBP risk the existing relationships with clients, the Bar, and the legal community, but their approval and support are also deemed crucial factors to enable the shift. Thus, firms would need to build and manage stable, long-lasting relationships of trust, loyalty, and transparency by communicating VBP’s benefits and the value they can provide while meeting clients’ need for predictability and cost efficiency.

“From a client perspective, the (VBP) model would only work in a very stable client relationship where you have immense trust and transparency between the parties ” (Associate, Interviewee 3)

Senior associates and partner-level interviewees also mentioned the need for *leadership* capabilities to get employees on board and lead and control the shift to VBP. Firstly, since price-setting would primarily take place at higher firm levels, some aforementioned capabilities, e.g., in pricing, would be specifically relevant for leaders to develop.

“Implementing VBP would increase the need for skilled leaders on the partner level not saying that we do not have that already, but you know what I am saying.” (Senior Associate, Interviewee 18)

According to interviewees, these capabilities firstly entail the strategic prioritization of VBP and continuous investments in business research and development. The significant organizational change is argued to be then driven top-down. In the opinion of the interviewees, it must be a unified effort communicated and supported by the management team and partners to “trickle down the organization” (Partner, Interviewee 19). Without the

hours, senior associates and partners would also require sophisticated project management and general business skills to drive projects and motivate teams.

“Project management and leadership can be improved in many lawyers. We are individualists in our guild, which can be difficult to lead. Often you are great at the legal part, but you should also be great at leading.” (Associate, Interviewee 11)

It was argued that people management behaviors such as fair and efficient task allocation, mentoring, feedback, and guidance can complement this capability, build trust and confidence, support subordinated lawyers in the transition, and substitute for the billable hour as a performance measure. Further, enabling open dialogues with partners and even rethinking the hierarchical structure is deemed to facilitate the implementation of VBP.

“As long as the communication between partners and associates is not working, VBP will have a hard time.” (Partner, Interviewee 10)

Interestingly, as supporting the shift, many also emphasized HR activities such as *efficient workforce planning and talent management*. After detaching the firm from tracking each employee in 6-minute intervals, updated planning systems and structures would be needed that are equally (cost-) efficient, fair, and transparent for partners, their subordinates, and management and finance functions in staffing employees on cases and departments.

“The hours are part of the internal budgeting and management and assess how much work we can take on. We would need to consider our talent and production capacity – how many lawyers and hours each.”
(Partner, Interviewee 4)

6. Analysis

To bridge the empirical findings to the literature, we compare the (6.1) perceptions and progression of VBP to the presented literature in the first step. We then apply the theoretical framework proposed in chapter 3 to examine how the empirical data differs from the theory in the (6.2) identified implementation barriers and their significance. Analogically, we analyze the (6.3) capabilities participating law firms adopted or suggested. Lastly, the (6.4) theoretical framework is revisited and adapted based on the synthesis of literature and empirical findings.

6.1 Perceptions and progression of VBP

In correspondence with the presented study by Hinterhuber (2008a) depicting an adoption rate of only 17-20% of professional services firms, VBP appears to still be at a nascent and even stagnant stage in the legal industry, being only selectively applied in a relatively unsophisticated fashion. Through its interconnection with the billable hour, we found pricing and VBP to be an important but controversial and even emotionally charged topic to most interviewed lawyers. As Felső and Seldeslachts (2022) suggested, we perceived a high acceptance and, more even, an appreciation for the billable hour as the primary billing tool. Corresponding to the literature, we further observed a low urgency and high resistance to change, which we tie to prevailing tradition and conservatism. The urgency to switch described by literature was mainly rooted in the low work-life balance and well-being due to ever-increasing yearly billing targets, primarily in American law firms (Fortney, 2000). Interviewing Sweden-based lawyers, we further explain the lower urgency in the Nordic work culture, prioritizing work-life balance.

6.2 Analysis of implementation barriers

We observed significant similarities with several implementation barriers identified by the literature (Fig. 8). Our interviewees mentioned different barriers corresponding to the individual, organizational and external barrier categorization proposed by Töytäri et al. (2017), thus, allowing us to adopt their structure for presenting the empirical findings. As opposed to our framework, legal-specific characteristics such as the billable hour or the unique culture and tradition proved to be deeply intertwined with barriers on different firm

levels, even constituting certain barriers themselves. Thus, we chose to analyze and add identified legal industry-specific barriers to their corresponding barrier realm.

Barrier Realm	Implementation barriers
1) Individual & cognitive barriers	<ul style="list-style-type: none"> • Lacking conceptual clarity and definition • Lacking expertise, experience & skill-set • Traditions, misconceptions & myths • Profitability concerns
2) Organizational & structural barriers	<ul style="list-style-type: none"> • Lack of strategic support & prioritization • Lack of collective buy-in & confidence • Anticipation of transformational change • Lack of supporting functions & structures • Difficult VBP design & execution • Difficult market & customer segmentation
3) External & client - related barriers	<ul style="list-style-type: none"> • Client skepticism • Insufficient CRM & value communication
4) Legal industry-specific barrier	<ul style="list-style-type: none"> • Billable hour as performance & billing tool • Prevailing corporate culture • Unique cases and clientele • Bar Regulations • ...

Figure 8. Overview of implementation barriers (Theoretical Framework)

6.2.1 Individual barriers

Despite significant similarities between literature and our interviewees' identified individual barriers, we found the 4) personality characteristics of individual lawyers to represent a novel barrier previously underexplored in literature. In addition, previously identified barriers were enriched with legal industry-specific aspects and nuances.

1) Lacking conceptual clarity and definition

Our data agree with the lack of sound or common understanding and conceptualizations of VBP itself, potentially hindering an industry-spanning acceptance of VBP (Liozu, 2015; Töytäri, 2015). Similar to the literature (ibid.), we observed this to be rooted in a lack of basic definition, VBP's novelty, and low adoption. However, we also found that with lawyers and sophisticated services at the center of law firms' offering comes a much higher level of subjectivity, ambiguity, and variety in perceptions and understandings of value and VBP.

2) Lacking expertise, experience, and skill-set

Corresponding to Nagle and Hogan (2017), our interviews also revealed a lack of knowledge and skills urgently required for the VBP shift. Similar to the literature, this insufficient

knowledge, specifically in pricing and VBP, proved to be interrelated with the initial barrier of lacking conceptual clarity of VBP and practical experience with (alternative) pricing methods (Töytäri et al., 2017).

Surprisingly, going beyond presented research only pointing to knowledge deficits in pricing, it became evident from our interviews that the lack of knowledge also refers to project management and general business acumen. Our data offered two significant, legal-industry-specific reasons for these knowledge gaps. Firstly, due to the hierarchical structure of law firms, pricing, leadership, and business development are executed by only a few senior lawyers with years of experience, client relationships, and partner-specific training, limiting the exposure of (junior) associates to these areas. Secondly, interviewees often pointed to law schools' outdated curriculum and the lack of training in those areas, making it lawyers' extra-curricular responsibility to acquire these skills. Thus, compared to the literature, this knowledge barrier appears even more multifaceted and pressing than initially assumed, presenting crucial barriers on both the individual and organizational levels.

3) Prevailing tradition, misconceptions, and myths

Firstly, our data undoubtedly confirms the importance of traditions, misconceptions, and myths, constituting a crucial individual barrier (Töytäri et al., 2017). As opposed to our framework, however, where we list these as a third individual barrier, our interviewees expressed their quite strong opinions first and foremost in every interview conducted. Thus, we grant the barrier of skepticism, opinions, and preoccupations around VBP a more critical role in the shift. Adding a more nuanced perspective to literature, we found these opinions to not be unanimous even within firms. Similar to the lack of understanding and knowledge, this can be related to different experience degrees and progression of VBP and the misconceptions around VBP affecting employees to different degrees.

Moreover, our data confirm that prevailing pricing logics - in this case, the billable hour - are perceived as the “only legitimate way[] of pricing” (Töytäri et al., 2017, p. 239) and even a corporate tradition and habit (Kienzler, 2018). While the interviewees vastly underestimated the benefits of VBP and focused on its roadblocks and drawbacks, e.g., the practicality and

cost, as predicted by Nagle and Hogan (2006) and Liozu (2015, 2017), they often emphasized the benefits of the prevailing system, demonstrating a solid loss aversion.

In contradiction to Töytäri et al. (2015), the interviewees did not perceive VBP as a temporary trend but often showed a susceptibility to the discussion and awareness of VBP slowly arriving in the industry. However, the interviewed lawyers were still found to generally lack motivation and resistance to change, corresponding to Töytäri et al. (2017).

4) Personality characteristics of individuals (lawyers)

While the individual barriers of our theoretical framework correspond to our data overall, the observed and described unique nature and characteristics of lawyers provided us with an unexpected, legal-specific individual barrier. This study found a strong connection between these personality characteristics and their positive stance towards VBP and change resistance. Lawyers' typically high individualism, ambition, performance-orientedness, and competitiveness are commonly problematized by scholars investigating, e.g., well-being in the legal industry (e.g., Fortney, 2000). However, researchers concerned with transformational pricing shifts, specifically VBP, have yet to connect these research streams and address these as individual barriers.

The “obsession with hours” expressed by the interviewees is argued to be a coping mechanism for the high workload, intensive competition, and hierarchical structure, as well as evidence of many lawyers' ambition and resilience. This close individual attachment to and support of the billable hour complexifies the shift to the billable hour.

To conclude, culture, lack of knowledge, and individual mindsets contribute to individuals' hesitation to change. A certain status quo bias and the comfort of the known contribute to the fear of being worse off from a new system and, thus, low adoption of VBP. Overall, the “sense of urgency” (Kotter, 1996) is not as prevalent in the legal industry, as employees seem to develop psychological bonds with their situation during intense work.

5) Profitability concerns

In comparison to Hinterhuber (2008) and Liozu (2015), profit concerns were less often mentioned by lawyers, which can have two reasons. Either the interviewees did not perceive these concerns as prevalent, or they might have yet to be aware of them, as the costs of actually implementing VBP might only be relevant further ahead in the discussion after overcoming initial inertia. If interviewees expressed financial concerns, those were more related to clients and their demand or the profitability of individual cases than to the cost of implementing VBP, as suggested by, e.g., Liozu (2015). However, as postulated by Liinamaa et al. (2016), many interviewees emphasized the risk of not applying VBP to the required professional degree, which could lead to lower profits, higher costs, and client defects. This risk was again related to a potential lack of knowledge, thus, demonstrating an individual facet of this concern and interrelatedness with other individual barriers. These concerns were also mainly expressed by partners who are more personally invested in and hold more responsibility for overall firm profitability through the partner model, tying their pay to firm performance, business development, and client acquisition.

Lastly, in line with Liozu (2015), some interviewees expressed financial uncertainty and unpredictability around VBP resulting from the difficulty of scoping and estimating returns and the lack of knowledge, understanding, and acumen. This heightened caution thus poses a significant challenge to the implementation of VBP.

6.2.2 Organizational barriers

As suggested by Provines (2010), organizational barriers were depicted as both prevalent and plentiful, revealing the 2) billable hour as a performance and billing tool and 3) unique cases and clientele to represent two novel barriers previously underexplored in literature. Analogous to the individual barriers, our findings extended previously identified organizational barriers with legal industry-specific insights.

1) Tradition & long legacy of the corporate culture

As Ulaga and Loveland (2014) suggested, corporate culture plays a central role on an organizational level. Our interviews illustrated a distinctive legal-industry-specific culture deeply connected to the billable hour, corresponding to Fortney (2005) and Pilon (2022). However, few scholars have previously tied this to the VBP discussion, which our

interviewees described as crucial. In our study, the legal culture appeared to be both inherently conservative as well as individualistic and meritocratic. Taking pride in past successes and traditions, firm members seemed to reinforce these cultural facets, contributing to change resistance. Thus, this profoundly entrenched culture presents a legal-industry-specific barrier and the root cause of many other organizational, external, and individual barriers.

2) The billable hour as a performance and billing tool

Due to the interweaving of the performance measures with the billable hour, we observed a higher emotional involvement in pricing discussions with the lawyers compared to employees in industrial settings described by the literature. Scholars such as Töytäri et al. (2015) suggest that employees are accustomed to prevailing pricing methods, corresponding to the billable hour representing a long-standing tradition. However, going beyond only a pricing tradition, the billable hour is also tightly knitted to the performance measurement and compensation system. Thus, the billable hour as a performance and billing tool was often perceived as an essential legal industry-specific organizational barrier to the VBP shift in the legal industry, entailing the challenge to overcome and substitute for the old system.

3) Unique cases and clientele

Researchers identified the heterogeneous clientele and individual client' specificity as potential barriers (Forbis & Mehta, 1981). In correspondence, interviewees described clients' uniqueness and specific requests as complexifying the VBP shift. Furthermore, mainly investigating industrial settings with homogeneous products, scholars often argue for an organizational-wide implementation of VBP (Liozu et al., 2011; Liozu, 2017). Due to the nature of the legal industry with more sophisticated offerings tailored to each client, case, and practice area, VBP could, thus, not be copy-pasted throughout law firms, likely only working for some practice areas (Töytäri et al., 2017).

4) Lack of strategic support and prioritization

Precisely as presented, e.g., by Liozu et al. (2012) and Liozu and Hinterhuber (2010a,b), low adoption levels of VBP were also accompanied by a lack of strategic prioritization, support, and commitment. While literature identified this as a key barrier to VBP (Liozu et al., 2012),

leadership-related barriers were less commonly mentioned when asking interviewees about potential barriers. However, they considered leadership capabilities vital for the implementation, thus, confirming the importance of leadership and implicating potential barriers. Further, an underrepresented, legal-specific factor in the VBP discussion is the hierarchical structure and partner model, where pricing and decision authority is exclusively reserved for employees of higher seniority, thus inhibiting collective buy-in and change. The data also suggests partners' resistance, which relates to various individual and organizational barriers, such as profit concerns.

5) Lack of organizational buy-in and collective confidence

This barrier proposed by literature was described less frequently. Corresponding to the individualistic culture described above, many interviewees instead focused on their own perceptions, rarely adopting a collective perspective, while partners focused much on clients and firm performance. Taking individual statements together, however, we can confirm the lack of organizational buy-in, legitimization, and collective confidence in the interviewed law firms (Liozu, 2017). Similar to Töytäri et al. (2017), we tie this to skepticism, inexperience, and the lack of knowledge, leadership support, and communicated success stories.

6) Anticipation of transformational change

The fact that a shift to VBP would entail a large-scale change in all practice areas, levels, and departments was perceived as a significant barrier, corresponding to (Liozu et al., 2011). Rather than stating specific changes, our interviewees commonly expressed that a lot has to change, which could be rooted in the overall VBP experience and knowledge deficit and, more broadly, in the limited change law firms have generally undergone in the past decades. Thus, the interviewees again demonstrated a high accustomedness to the status quo and skepticism toward VBP, resistant to embrace the necessary changes.

7) Lack of supporting functions and structures

In literature and interviews, supporting functions such as IT, communications systems, marketing, and sales were less frequently mentioned as barriers to VBP. This can be explained by their lower perceived relevance but a lower awareness of these supporting functions. However, similar to Liozu (2015), interviewees criticized a lack of technical

expertise and support. To sustain a shift to VBP, many interviewees argued that all support functions should be more tightly connected, e.g., HR, staffing, and IT. This adds insights to the literature, calling for aligned support functions and HR adjustments, which are more specific to the sophisticated service industry.

8) Difficulties in designing and executing VBP

Our interviewees also pointed to the difficulty of designing and implementing a VBP tool addressed by the literature (Liozu et al., 2011). The occurrence of such concerns clearly correlated with the seniority or experience of the respective interviewee. Lawyers and especially partners that have already worked with VBP described more fine-grained difficulties of designing a broader-scale VBP tool and were better able to visualize the roll-out of VBP than those with only rudimentary exposure to it. On the other hand, some interviewees did not mention this pricing-specific barrier entirely, lacking a sound understanding of VBP's implications, being preoccupied with initial roadblocks, or perceiving this as less of an urgent barrier. Thus, compared to the literature, the data at hand provides a more nuanced picture, not allowing for a definitive judgment.

9) Difficulties with market and customer segmentation

As discussed, the legal clientele was characterized as heterogeneous in nature, demand, culture, and progressivity in relation to VBP. Thus, the importance of efficiently segmenting clients into suitable "candidates" for VBP is even higher and potentially more complex than suggested by the literature (Forbis & Mehta, 1981). However, the interviewees already identified suitable clients, demonstrating a high sensitivity to client demands and heterogeneity.

6.2.3 External barriers

Generally, our interviewees often ascribed a primary role to the following external barriers in driving the VBP shift. Compared to the literature, client-related barriers were mentioned more frequently and nuanced by the lawyers. In similarity to the above barriers, previously identified external barriers were also enriched with legal industry-specific aspects, revealing the 3) Bar Association as a novel barrier previously underexplored in the literature.

1) Complex, stakeholder-driven network

The legal industry's external environment and its many stakeholders are described as significantly more interconnected and complex than many industrial networks considered by literature when analyzing potential barriers of VBP. Scholars have yet to acknowledge the potential of the legal industry complex network to constitute a barrier to implementing VBP which both literature and our framework have insufficiently investigated. As a commonly mentioned hurdle, we thus propose the additional barrier of the complex, stakeholder-driven network. Our interviewees described the business as strongly network-driven and commonly ascribed the aforementioned culture inherent to the entire legal "community," characterized by change resistance and conservatism. Furthermore, law firms would typically benchmark competitive moves, e.g., in new pricing approaches, to determine the urgency and scope of the VBP implementation.

2) Client skepticism

With their increasing demands and bargaining power, law firm clients, their opinions, and potential reaction were among the most frequently thematized barriers, perceived as an even more significant interest group than suggested by scholars. This ascribed importance can be reasoned by Brooks et al. (2019), describing the legal industry and service as historically heavily client-centered. Additionally, our interviewees argued that their clients often employ legal professionals themselves who are accustomed to the billable hour and face similar cognitive barriers.

3) Client relationship management (CRM) and communication

Hinterhuber (2008) emphasized the challenge of measuring and communicating the value externally. In this context, our respondents often mentioned the difficulty of "selling" VBP to generally skeptical, demanding, and conservative clients (Töytäri et al., 2017). Moreover, the data provide insights into the exact concerns of clients, which often circle around profits, quality, and cost reduction, demonstrating the aforementioned skepticism and individual cognitive barriers of clients that would need to be overcome. As mentioned above, however, it also became apparent that different clients are swayed towards VBP by different arguments due to different levels of skepticism or support of VBP, deeming CRM in relation to VBP even more complex than in industrial settings commonly described by literature.

4) Bar Association

While the Bar Association is considered in our proposed framework and was frequently mentioned by interviewees, its impact on the VBP discussion has yet to be investigated. Both our interviewees and the broader research community lack an in-depth understanding of the Bar's rules. This lack can be reasoned by practitioners' inexperience and lack of involvement with the Bar, pricing, and VBP, and the topic's novelty. Further, the Bar regulations vary across countries, making an overarching assessment difficult.

Concluding the analysis of the VBP barriers, an updated overview is provided in figure 9, synthesizing the insights from literature and empirics.

Barrier Realm		Implementation barriers
Legal services-industry specific characteristics	1) Individual & cognitive barriers	<ul style="list-style-type: none"> • Skepticism, opinions and preoccupations • Lacking conceptual clarity & definition • Lack of VBP, project mgmt & business acumen • Personality characteristics of lawyers
	2) Organizational & structural barriers	<ul style="list-style-type: none"> • Tradition & internal conservatism • Individualism and meritocracy • Billable hour as measurement & planning tool • Organizational pricing knowledge deficit • Case & practice area uniqueness • Lack of strategic support & prioritization • Anticipation of transformational change
	3) External & client - related barriers	<ul style="list-style-type: none"> • Complex, stakeholder-driven network • Client uniqueness & variety • Skepticism, conservatism & change resistance • Clients' profitability & quality concerns • BAR regulations

Figure 9. An updated overview of the barriers

6.3 Analysis of capabilities

Following our framework, we applied Liozu's 5-C's (2012) and the respective capabilities to analyze our findings. The capabilities identified during our interviews exhibit significant similarities with various capabilities identified by literature. Surprisingly, the frequency and ascribed relevance and meaning of some capabilities by literature differed, leading us to interpretations and adjustments of the initial framework. Supporting capabilities such as internal budgeting and capacity planning were novel findings not previously explored by VBP literature.

Champion	<ul style="list-style-type: none"> • Strategic leadership capabilities • People mgmt., motivaton & communication capabilities
Capabilities in VBP	<ul style="list-style-type: none"> • Pricing capabilities • Performance measurement capabilities
Change	<ul style="list-style-type: none"> • Change management capabilities
Center-led Mgmt.	<ul style="list-style-type: none"> • Structural, technical & supporting capabilities
Confidence	<ul style="list-style-type: none"> • Int.: Training, learning & knowledge-sharing capabilities • Ext.: Client research & rel. management capabilities

Figure 10. Overview of implementation capabilities (Theoretical Framework)

6.3.1 Champions

1) Strategic leadership capabilities and top management support

Similar to the leadership barrier, pure leadership capabilities, as they were emphasized by scholars (Liozu, 2017; Nagle & Hogan, 2006), were less prevalent in our interviews. Instead, these capabilities were often mentioned in relation to other capabilities on the partner level. This could be caused by the nature of our sample, interviewing primarily partners, who constitute the equivalent of leaders and might have been less aware of their own role in the VBP shift and potential shortcomings. In the eyes of our interviewees, leadership capabilities also include sophisticated project management and general business skills, thus representing an additional capability.

Still, in similarity with, e.g., Liozu and Hinterhuber (2012), we found the interviewees to strongly agree with the need for strategic prioritization and top management support. As

opposed to the literature calling for a “champion” and “mindful leader” (Liozu, 2015; Liozu et al., 2011), our interviewees took a less emotionally charged stance, instead emphasizing the need for control, direction, and practical guidance. Due to the partner model entailing numerous “leaders” on the same hierarchical level, our interviewees did not tie leadership to an individual, stand-alone leader. Thus, we adjusted this capability category to “champions,” corresponding more to Kotter (1996) suggesting a coalition.

2) People Management, Motivation, and Communication Capabilities

Corresponding to its ascribed importance in the literature review, the interviewees highlighted the importance of people management capabilities. Our interviewees also confirmed the need for interpersonal and motivational activities that build trust and confidence (Liozu, 2015, 2017; Liozu & Hinterhuber, 2014a,b), mentioning feedback and mentoring as crucial in the transition. Our interviewees also ascribed these capabilities to partners as their leaders (Liozu and Hinterhuber, 2013a,b). However, we found this to be rooted in lawyers’ lack of experience, the billable hour that defects as a performance measure, law firms’ hierarchical structure, and partners’ pricing decision authority instead of in a desire for an inspirational and visionary leader as described in the literature. Instead, our findings enriched this proposed capability category as interviewees mentioned operational people management capabilities such as fair and efficient task allocation and clear guidance. In accordance with Hinterhuber (2008), this capability also entails substituting the billable hour as an incentive model and designing new, “softer” performance metrics that continuously inspire and motivate employees. Further, some interviewees mentioned the importance of efficient communication with their partners, corresponding to, e.g. Provines (2010).

6.3.2 VBP Capabilities

3) Pricing capabilities

As Dutta and Bergen (2003) proposed, our interviewees highlighted investing in law firms’ pricing capability as particularly important, with the level of detail and elaboration increasing in interviewees’ seniority and pricing experience. Perceived as one of the most urgent capabilities, we found it to be rooted in the interconnection of pricing with performance, profitability, and clients. Corresponding to Liozu et al. (2011), interviewees pledged to acquire specialized pricing expertise and build a more sophisticated pricing resource. Similar

to Liozu et al. (2011, p. 6) calling for internal experts from “central or center-led pricing teams,” interviewees further mentioned pricing committees as vital investments. However, interviewees focused more on building individual pricing expertise, tying to their individualism. Considering the case and client uniqueness, they also suggested the use of pricing databases, templates, assisting documents, and even AI, which corresponds to the literature suggesting the design of comprehensive value documentation tools (Hinterhuber, 2008; Töytäri et al., 2017)

4) Performance measurement capabilities

While describing performance measurement as an additional, rather supporting activity by scholars such as Hinterhuber (2004, 2008) and Liozu et al. (2011), our interviewees strongly emphasized effectively redesigning the performance and compensation system and substituting the billable hour as the most essential capabilities. This emphasis is rooted in the deep interweaving of performance measurement and compensation with the billable hour and lawyers’ individualism, causing personal loss aversion and focus on the shift’s effect on the individual rather than the organizational realm. The literature insufficiently investigated these two factors and their effects. The performance measurement capabilities were also found to be connected to the 2) people management, motivation and communication capabilities.

6.3.3 Center-led management

5) Structural, Technical, and Supporting Capabilities

Overall, our respondents less commonly mentioned these capabilities and also understood different capabilities as “supporting” than most scholars. Due to the general individualism and nature of work, our interviewees did not focus on implementing multi-functional teams, as suggested by Liozu (2017). However, they recognized the need to adjust routines, structures, and systems (Raja et al., 2020) but mostly mentioned this in relation to other capabilities, such as pricing and performance measurement. In correspondence with Nagle and Hogan (2006), interviewees also mentioned AI, databases, and technological solutions and expertise to enable knowledge creation and sharing; however, they only related these to the pricing area. Constituting novel, legal-industry-specific supporting capabilities, some respondents mentioned HR activities such as efficient workforce planning and talent

management. To sustain a shift to VBP, many interviewees argued that all support functions should be more tightly connected, e.g., HR, staffing, and IT.

6.3.4 Change

6) Change management

Contrary to scholars proposing a specific change management capability (Liozu, 2015), our interviewees rarely mentioned such capabilities, being thus deemphasized in our framework. Even though many acknowledged VBP as a “transformational initiative” (Liozu et al., 2011) requiring many changes, they demonstrated lower sensitivity and in-depth knowledge about change and its organizational consequences. This can be explained by change management not being part of lawyers’ training or education, and that large-scale change historically rarely occurs within law firms. Overlapping with the literature, however, some interviewees mentioned the need for pilot projects and starting small (ibid., Provines, 2010).

6.3.5 Confidence

7) Training, learning, and cross-functional knowledge sharing capabilities

In accordance with scholars such as Liozu (2015) and Nagle & Hogan (2006), respondents illustrated knowledge creation and management capabilities as essential in implementing VBP. While revealing unexpected knowledge gaps in our interviews, the respondents described similar ways to overcome these, suggesting tailored on-the-job training and experiential organizational learning (ibid.). According to our interviewees, this could be complemented by the above-described knowledge databases and mentoring as an essential learning mechanism. However, they identified root causes that stretch beyond firm boundaries, such as the law school degree, thus requiring improvement in these capabilities throughout the legal community.

8) Client research and relationship management capabilities

As opposed to our literature review, proposing these capabilities among the last client- and network-related activities, our respondents located them among the most important ones. This relates to the industry’s and lawyers’ deeply ingrained client-centricity and the clients’ bargaining power and increasing demands. Thus, law firms already highly prioritize client relationships, as suggested by, e.g. Forbis & Mehta (1981), confirming their importance while

offering an even more nuanced picture. For instance, our interviewees did not conform to Provines (2010) and Steinbrenner & Turčínková (2021), primarily describing VBP as an internal change process that is then communicated to the client with the help of marketing, brand building, and sales. Due to the unique nature of law firms and their offerings and clients' high knowledge level, our findings rather confirm Hinterhuber (2008), calling for lobbying, networking, and communicating tailored fact-based benefits to the clients to nurture trust, transparency, and external buy-in.

On the same note, customer research capabilities (Ingenbleek, 2007) were less mentioned as customer research does not present an established or feasible practice in the legal industry. However, client segmentation to identify suitable clients is deemed relevant (Hinterhuber, 2008; Liozu, 2017). Moreover, while not mentioned in the literature, the legal community, the Bar Association, and its regulations were presented as surprisingly central stakeholders that need to be considered as part of the network relationship management.

Concluding the analysis of the capabilities facilitating the VBP shift, an updated overview is provided in figure 11, synthesizing the insights from literature and empirics.

VBP Capabilities	<ul style="list-style-type: none"> • Performance measurement capabilities • Pricing capabilities & professionalization
Confidence	<ul style="list-style-type: none"> • Int.: Training, learning & knowledge-sharing capabilities • Ext.: Client segment. & relationship mgmt. capabilities
Champion	<ul style="list-style-type: none"> • Strategic leadership capabilities • Project and business management capabilities • People mgmt., motivaton & communication capabilities
Center-led Mgmt.	<ul style="list-style-type: none"> • Structural, technical & supporting capabilities • Efficient workforce planning and talent management
Change	<ul style="list-style-type: none"> • Change management capabilities

Figure 11. An updated overview of the capabilities

6.4 Revisited theoretical framework for VBP implementation

Revisiting our initial framework, we synthesized previously identified barriers and capabilities with our empirical findings that unveiled new, enriched, or even rendered suggested aspects redundant. Despite not being exhaustive, the initial framework

incorporated valuable insights from the VBP research body and, thus, already provided a model for initial sensemaking. In our empirical findings, however, we aimed to remain unbiased, letting the data guide us in gathering and analyzing the new findings.

In the analysis, some barriers found in the literature were then renamed or merged while revealing entirely new barriers, refining them in the legal industry context, such as the character of lawyers, the two-folded culture, or the complex, stakeholder-driven network. Thus, we found that the mentioned barriers could be divided into 16 codes that could be grouped into the three categories previously proposed by Töytäri et al. (2017). Due to the apparent, deep interrelation of the legal industry-specific barriers previously isolated in a fourth category, we chose to incorporate these in the remaining three barrier realms. Not presenting them in an individual category that highlighted their importance, we chose to compromise by visually accounting for their spanning effects.

Respectively, the capabilities were divided into ten codes that were grouped into five revisited categories, as proposed by Liozu et al. (2012). Suggesting differing levels of significance of the 5-C's, we reordered and adjusted the 5-C's and added and categorized the capabilities upon the presented empirical findings into the revisited five categories of VBP Capabilities, Confidence, Champions, Center-led management, and Change.

According to empirical findings, some barriers and capabilities were also entirely disregarded, implying that not all of them appeared relevant in the context of VBP. Further, interrelationships and the (in)direct impact of the adapted 5-C's on the three barrier realms were added as identified during the interviews. In Figure 11, our findings are presented, illustrating our completed theoretical framework, which will serve as the basis for our discussion and the following summary of the thesis.

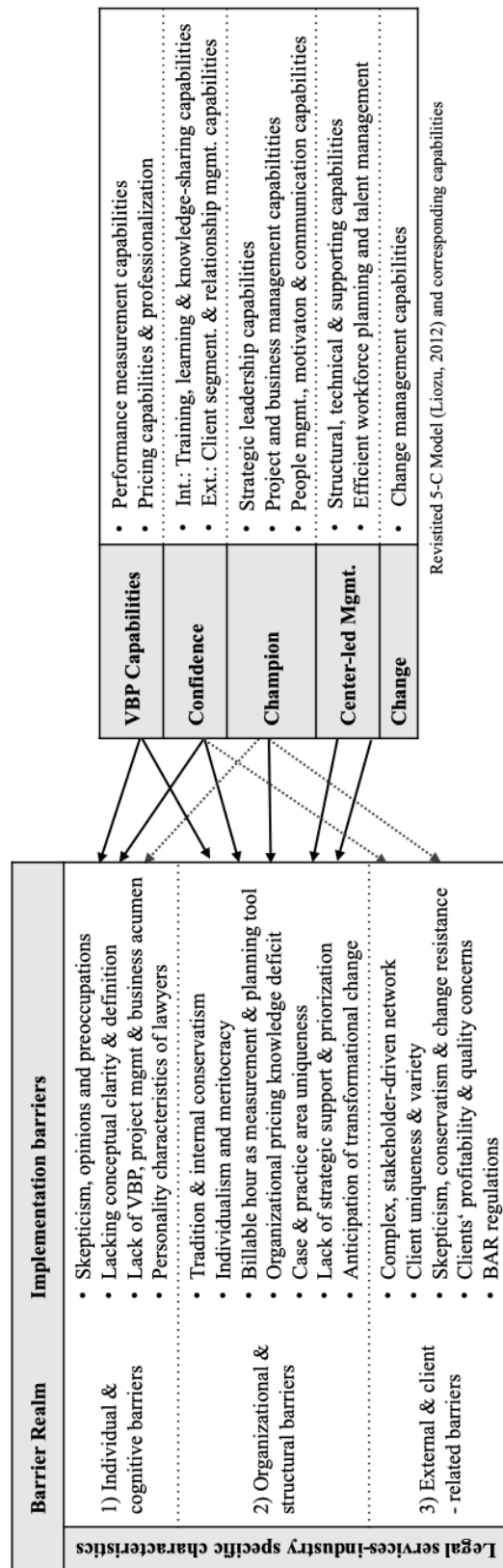


Figure 12. Revisited theoretical framework of VBP barriers and capabilities in the legal industry

7. Discussion

The following section presents our most interesting insights outlined in (7.1) general discussion, discussion of the (7.2) identified implementation barriers, and (7.3) capabilities to facilitate a VBP shift in the legal industry.

7.1 General discussion

While illustrating some similarities, the ascribed importance, frequency, and involved actors of the mentioned barriers and capabilities usually differed from the literature. While similarities indicate that law firms share many similar traits with previously investigated firms in the VBP shift, differences in identified barriers and capabilities are rooted in the uniqueness of the legal industry. This points to the already anticipated fundamental differences between previously researched, industrial, and legal organizations (Steinbrenner & Turčínková, 2021). Among these differences, the interviewees described the price-setting authority that is primarily reserved for individual partners, the interconnection with the billable hour that, in contrast, affects all employees, and also the unique nature of law firms' culture, offering, cases, and clientele. Due to the relative novelty and lack of previous research within the legal industry, our findings also uncovered surprising new insights and provided a finer-grained perspective compared to the literature. Generally, the VBP discussion and delineation of distinct barriers and capabilities proved complex, demonstrating high subjectivity and interrelatedness.

Which barriers and capabilities interviewees described was also influenced by law firms' culture and hierarchical structure, causing them to be cautious about criticizing fellow lawyers or suggesting targeted improvements. Furthermore, lawyers' personality characteristics and self-image potentially led to less honest and more concealing responses.

7.2 Discussion of implementation barriers

While representing significant stand-alone barriers, the barriers are found to be highly interrelated and commonly prevailing on several or all organizational levels. Thus, the lack of knowledge and buy-in and the legal-industry-specific factors such as culture, for example, are prevalent on all levels, reinforcing each other. Other than suggested by the literature, we

discovered varying opinions and preferences that demonstrate VBP's controversy and the high emotional involvement of legal employees.

On a more critical note, our interviewees were usually motivated by personal agendas, perceiving the VBP shift from a highly personal, not always entirely rational stance. Some of the barriers mentioned by our interviewees were not fully accurate, demonstrating a lack of conceptual clarity, pricing acumen, and understanding. As opposed to established pricing researchers objectively studying the shift for years, this could deem our interviewees a less reliable or knowledgeable source. However, due to their practical involvement and their perceptions' high relevance, their responses delivered fascinating new insights, enriching the literature. On an organizational level, we saw that the progression and shared organizational opinion toward VBP is influenced by precisely these individual perceptions and individuals' level of comfort with VBP, regardless if these are grounded in reason or "myths."

Differences compared to literature can further be explained by fundamental differences in the prioritization of researchers and practitioners. The importance of lacking VBP conceptualization and theoretical taxonomy, for instance, is deemed most important by scholars while perceived as less relevant by practitioners. However, as this lacking theoretical definition can translate into a lack of practical VBP understanding of VBP, its benefits and implications, and change inertia, it is crucial to mediate between both realms.

In similarity with researchers, we further discovered crucial interrelations between the seniority and inexperience of practitioners and their skepticism towards VBP and the progression of VBP in the law firm. In the legal context, this skepticism can, however, also be traced to the two-folded purpose and tradition of the billable hour as well as the ambitious, performance-focused, and individualistic character of lawyers, pointing to the novel, industry-specific barriers. Similarly, the lacking project management skills and business acumen expressed by the interviewees is an unexpected finding not suggested by the literature. Previously dismissed by the legal community, we connected this lack to the limited business-related training and education at law schools and firms.

In addition, the Bar Association was identified as a legal-specific barrier not previously mentioned by literature. This is perceived as particularly relevant as many industries are subject to regulations around data protection, pricing, competition but also environment, and equality, heightening the importance of corporate action. Despite tying specifically to the legal industry, we deem the focus on the broader network in the VBP discussion as crucial to consider across industries. Another crucial insight is the law firms' idiosyncratic and multifaceted culture that appears to be both important and challenging to overcome. Due to this culture and nature of the legal services industry, lawyers have difficulties seeing industry-wide adoption of VBP in the near future. Thus, a change toward VBP is expected to face broad organizational resistance and take considerable time and effort.

7.3 Discussion of capabilities

As a novel and complex discussion, questions concerning capabilities were more hesitantly and less elaborately and explicitly answered. One reason for this is the general lack of experience with VBP and overall transformational processes among legal professionals leading to an imperfect understanding of the requirements and facilitating activities in a pricing shift. However, our interviewees' statements and how they described their work reality proved the need for specific capabilities, e.g., motivational, interpersonal, and change capabilities. Moreover, as opposed to literature proposing clearly defined capabilities, we found interviewees to suggest less high-level but rather practical, "hands-on" action steps to implement VBP. Synthesizing insights from both realms, thus, delivered more actionable and less ambiguous capabilities.

Further, the different progression stages of VBP and the unique cultures of each law firm also cause implementation capabilities to be tailored to each firm and stage in the process (Liozu, 2015). Generally, due to individualistic culture, most capabilities mentioned referred to more rational, individual activities and realms, emphasizing the pricing and performance measurement capabilities. Contrary to the literature, interviewees thus also did not mention team-related capabilities, which offered an interesting, industry-specific insight.

Conforming to the literature, developing firms' pricing capability was described to be of utmost importance. Interestingly, interviewees further stated the urgently required

performance measurement capability to substitute for the billable hour. As VBP and current trends in the legal industry increasingly require lawyers to demonstrate both legal and business expertise, financial literacy and project management skills are crucial, deeming this legal-specific barrier a vital contribution. Further, while being less commonly discussed by interviewees, lawyers' individualistic and often ambitious nature and change resistance necessitate developing interpersonal capabilities providing appreciation and motivation even more.

8. Conclusion

In our final chapter, we aim to conclude this thesis by (8.1) answering our two research questions and discussing the (8.2) theoretical contribution and (8.3) practical contributions of our research. Lastly, we identify the (8.4) limitations and (8.5) future research direction.

8.1 Answering our research questions

Research Question 1: What barriers hinder a shift to value-based pricing in law firms?

In the present thesis, the faltering adoption and limited practice of VBP in the legal industry are found to be rooted in three barrier categories: individual, organizational, and external. The barriers were further discovered to be interrelated, with the legal-specific characteristics and barriers spanning all three realms. Our findings further suggested that law firms' prevailing culture and tradition, including the billable hour as a performance tool, the lack of knowledge both in pricing and business, and inexperience are the main barriers prevalent in all categories and most complex to overcome. On an individual level, associates illustrated a limited awareness of the shift, VBP itself and its benefits, and unique personality characteristics favoring the status quo.

Other organizational barriers most commonly perceived by our interviewees relate to the actual design, administration, and execution of VBP. These provide further reasons for the diagnosed lack of organizational buy-in, legitimization, and motivation in the interviewed law firms, causing lawyers to have difficulties seeing industry-wide adoption of VBP in the near future. Externally, the complex network of stakeholders, including clients and the Bar Association, needs to be considered.

Research Question 2: What capabilities are needed to facilitate value-based pricing in law firms?

VBP in the legal industry is at a nascent stage with a long way ahead before being more broadly implemented in law firms. As an inevitable transformational process expected to have disruptive effects, the VBP shift will require a fundamental change in existing and adaptation of new capabilities. In this thesis, we identified relevant capabilities from VBP literature and empirics and categorized them based on an adjusted 5-C model (Liozu, 2015).

To these categories, including champions, VBP capabilities, center-led management, change, and confidence, we allocated different capabilities relevant to the respective dimension. From these, we explicitly highlight pricing capabilities to develop and implement a sophisticated VBP model and performance measurement capabilities to compensate for the defect of the billable hour. Other vital capabilities relate to law as well as business education and training, experiential learning, and knowledge-sharing to nurture an expertise-rich workforce. These are complemented by leadership and motivational capabilities to overcome change resistance.

8.2 Theoretical contributions

Few studies have previously empirically identified the barriers to the VBP shift in the legal industry and the capabilities that facilitate such a shift. By investigating an industry that has been an underrepresented research field in VBP literature, we, thus, contribute to the VBP and legal-specific literature and close the identified research gaps with fascinating findings. These include novel barriers such as the billable hour, the two-folded corporate culture, and lawyers' personality characteristics and client-related barriers. We further contribute to the capabilities theory by applying it in a legal context, presenting new capabilities such as performance measurement and project and business management capabilities. Our findings also enrich Liozu's (2012) 5-C Model, rearranging and renaming its dimensions such as "champions" and "VBP capabilities" corresponding to the requirements of the VBP shift. VBP literature has provided highly ambiguous barriers and capabilities specific to manufacturing and industrial settings, which we complement with detailed empirical insights offering elaborations and reinterpretations of identified factors by literature and bridging the gap to other industries, e.g., the sophisticated services sector.

Our thesis is theoretically relevant and transferable in its findings to other research fields, such as pricing (transformations), due to its comprehensive perspective, investigating different firm levels and considering individual, organizational and external barriers, capabilities, and their interrelations. We highlight the significance of discussing VBP in relation to the respective industry's idiosyncrasies, which in this thesis offered novel, legal-specific insights, e.g., related to the billable hour. This broad perspective also uncovered transferable insights such as the role of personality characteristics of professionals and inherent culture and tradition in the VBP and other transformational shifts in organizations.

8.3 Practical contributions

The exploration of VBP in the legal industry highlights the disruptive effects that VBP can have on law practice and other industries and is deemed relevant for various actors, their agendas, and functions. Our findings present novel legal-specific factors, such as the billable hour and performance measurement system, culture, and lawyers' character that need to be carefully accounted for by legal firms in the VBP shift. Our study raises awareness among the legal community. Further, it ignites a discussion among stakeholders, creating a sense of urgency in firms, Bar Associations, or clients whose "buy-in" is deemed crucial in the implementation. Our findings also advise law schools and other educational institutions to revisit and adapt their curriculum to nurture a more sophisticated knowledge of pricing methods and VBP, project management skills, and business acumen. For law firm partners, senior associates, and other top management executives, we highlight crucial barriers on various levels, their interrelation, and the necessary capabilities to develop or prioritize when implementing VBP. A valuable insight for executives is further the critical role of inspiring and mobilizing leadership to legitimize VBP.

On a broader level, the findings also inform pricing practitioners and committees and firms transforming their prevailing pricing method about the necessary steps toward a large-scale implementation. As the legal industry shares cultural similarities, such as its conservatism, individualism, and performance-orientedness, with other professional services firms in investment banking and management consulting, our findings are also deemed transferable to these contexts.

8.4 Limitations

Despite these valuable contributions, our findings should be considered in light of certain limitations that might impact their generalizability. Due to our study's explorative nature and thematic novelty, we do not claim the identified barriers and capabilities to be an exhaustive presentation. Further, as we focused explicitly on business law firms and specific practice areas, some of the identified barriers and capabilities might be unique and, thus, difficult to extrapolate to the whole VBP discussion or other industries that do not exhibit similar characteristics. Another limitation lies in the explorative data collection in the main study being restrained in time and geographics and capturing varying, subjective and individual

perceptions of a selected sample and potentially impacting our findings. However, we receive these aspects to not limit but allow for more extensive future research.

8.5 Future research direction

With the present thesis, we aim to inspire future research in the VBP domain and related pricing literature. As we found our findings to differ between individuals and law firms, diversifying the interview sample to an even greater quantity or a variety of law firms could depict a more nuanced and comprehensive picture of VBP barriers and capabilities, their importance, and interrelation (Alvehus, 2013). We also consider investigating ALSPs or online law service providers and benchmarking their competitive actions, a valuable extension to this research in learning first-hand about best practices. Also, although we did not focus on Sweden-specific factors, we expect geographic, regulatory, and cultural differences between studied countries to potentially impact the findings. Thus, exploring other geographies and studying cultural influences on VBP implementation is a vital future research direction.

Our findings also encourage further research on phenomena such as the billable hour as a performance tool or the idiosyncratic culture of the legal industry, as they have important implications for implementing VBP. Moreover, while the current study investigated the status quo and past progression of VBP, it is interesting to take a future perspective, attempting to predict the impact of emerging trends, actors, or technologies such as AI and legal tech or a potential recession on the shift. Lastly, empirically testing the suggested barriers and capabilities would be vital to validate and further refine our findings.

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APPENDIX 1 - INTERVIEW GUIDE: PRE-STUDY

A. BACKGROUND

- Can you tell us a bit about your legal background and your role at the company?
- How long have you been with the company?

B. VALUE-BASED PRICING

- How are you currently working with VBP?
- What roadblocks have you encountered from an external perspective?
- What roadblocks have you encountered from an internal perspective?
- What are the biggest challenges with VBP from a firm and employee perspective?
- What are the greatest benefits of VBP?

C. VALUE-BASED PRICING: THE SHIFT

- How have you implemented VBP, and how do you plan on using it to a greater extent?

D. CONCLUDING QUESTIONS

- What other aspects do you consider essential for VBP to work in the legal industry?
- Is there anything else you would like to add that we have not asked you about that could be valuable for us to know about?

APPENDIX 2 - INTERVIEW GUIDE: MAIN STUDY

A. PARTICIPANT BACKGROUND

- Can you tell us a bit about your legal background and your role at the company?
- How long have you been with the company?

B. PRICING STATUS QUO

- What aspects are important to you in your work life?
- In your department or team, how is performance measured?
- Do you feel like the chosen performance measure motivates you/ your team?
- What type of billing model are you currently using?
 - What motivates your firm to use value-based pricing (if used)?

C. THE VBP SHIFT

- Have you heard about value-based pricing?
- Does your law firm use VBP with any of its clients and if so, how exactly and to what extent (only certain departments, clients)?
- What is your personal stance on the current pricing model/ VBP?
- What roadblock do you see? What could be a major obstacle in the process? And potential success factors?
- If VBP would be implemented, what would be the best way to implement it? What would be important to you in the implementation process?

D. THE FUTURE OUTLOOK

- What do you think will change when implementing VBP for your law firm?
- What do you think will change when implementing VBP for the industry at large?
- What capabilities do you think your firm needs to develop/adjust?
- What resources do you think your firm needs to develop/adjust?

E. CONCLUDING QUESTIONS

- What other aspects do you consider essential for VBP to work in the legal industry?
- Is there anything else you would like to add that we have not asked you about that could be valuable for us to know about?