

Thomson Reuters Institute

2022 Law Firm Business Leaders Report

Optimism, challenges, and the need for careful strategy

With an eye on the horizon, law firm business leaders see general economic pressures and other outside concerns as threats to profitability.

Executive summary

The past few years of global upheaval have seen the legal industry, on the whole, enjoy remarkably strong results. In fact, 2021 was another record year for law firms, as measured by most performance metrics.

As we moved into 2022, however, cracks began to appear in this generally positive façade. Many law firms found themselves entangled in a seemingly endless competition for top legal talent, while simultaneously facing higher expenses and creeping hints that legal demand was slowing, at least in some practice areas.

Then, there are the general economic worries about which many industries, legal included, have voiced grave concerns. Inflation, potential recession, ongoing war, supply line disruptions, and a charged political environment have begun to weigh heavily on the minds of many law firm business leaders, leaving them concerned about the future.

Perceptions of high profitability risks have taken an outward shift in an uncertain world.

Add into this higher talent costs and elevated associate turnover and you get a laundry list of worries that many of those professionals who run the business side of law firms — Chief Operating Officers, Managing Partners, Chief Financial Officers, and others — see as major threats to the ongoing profitability of their firms.

Not surprisingly, this latest edition of the *Law Firm Business Leaders Report* highlights the concerns over general economic pressures cited as a high risk to law firm profitability by almost one-third (32%) of those surveyed, placing it as the second highest among risk factors identified. By comparison, in last year's report general economic pressures were cited by only 16% of respondents as a high risk to profitability, ranking it in 9th among risk factors.

Certainly, law firm business leaders' perceptions as to what they view as high risk to their firms' continued profitability have taken an outward shift to the uncertain world outside the office. In fact, illicit activities by outside actors — in the form of security breaches, hacks, ransomware demands and data loss — was the *number one* most cited threat, with 42% of those surveyed citing it as a high risk to firm profitability.

What does this say about law firm business leaders' thinking today? It's not all dismal, certainly. Most business leaders say they expect medium growth in many of their firms' practice areas, and high growth in areas such as intellectual property and mergers & acquisitions. And more than half (52%) expect profits per lawyer to grow moderately over the next three years.

Yet, even as law firm business leaders begin to map out their business strategy for the next few years — taking steps to improve performance such as raising rates, improving technology, supporting more remote work, and increasing cross-selling throughout the firm — many are keeping at least one eye on the horizon and wondering if those dark clouds will dissipate or become a formidable challenge.

Methodology

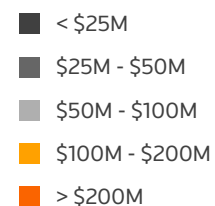
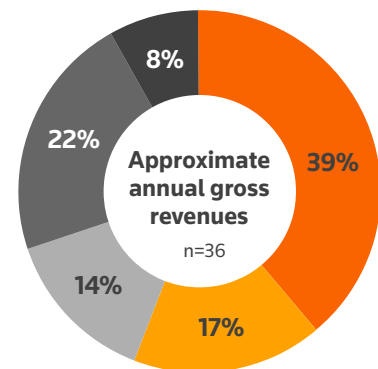
This annual report is published by the Thomson Reuters Institute, in partnership with the Center on Ethics and the Legal Profession at the Georgetown University Law Center. The report is based on a survey of U.S. law firm business leaders. The survey is designed to gain insight into law firm business leaders' perceptions of their firms' growth, profitability, and risk.

For this year's report, a total of 50 responses were gathered between October 4 - 25, 2022, in a survey that identified Thomson Reuters as the sponsor.

Respondent profile

Job title n=50	
Chief Operating Officer	30%
Managing Partner	26%
Chief Financial Officer	12%
Chief Marketing Officer	6%
Chief Technology Officer	4%
Chief Executive Officer	2%
Other	20%

Geographic scope n=49	
Local	24%
Regional	39%
Nationwide	37%

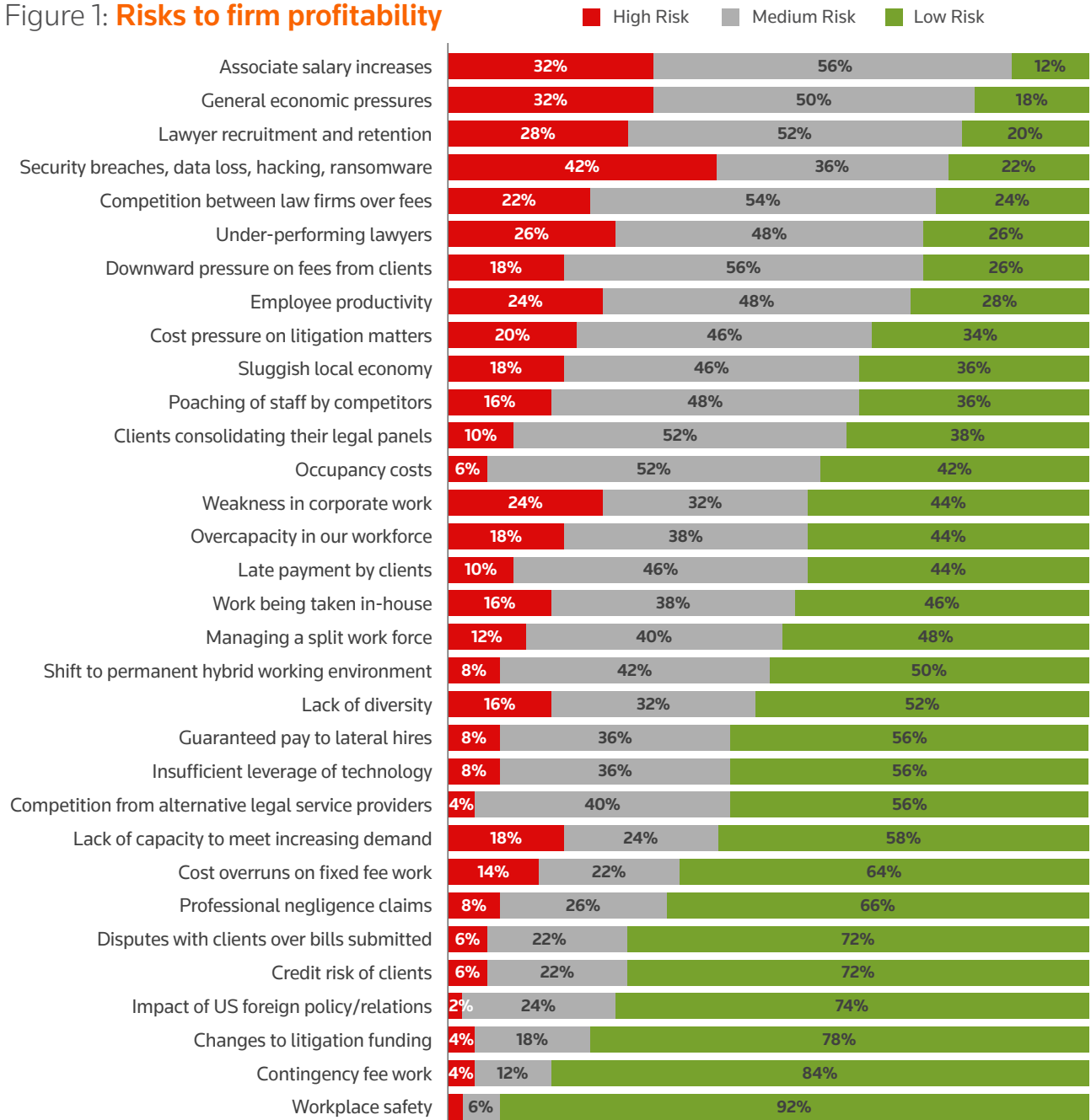


Source: Thomson Reuters 2022

Key risks to firm profitability

You can glean no quicker measure of what is top of mind for many law firm business leaders than by looking at what they view as the most concerning threats to the profitability of their firms.

Figure 1: **Risks to firm profitability**



To what extent do you think the following factors are risks to the profitability of your law firm? Base: Total sample (n=50)

Source: Thomson Reuters 2022

In this year's report, concern over external threats is quite evident. Along with increasing concern over general economic pressure, which saw a large increase from last year, a new entrant into this year's questions, fears about security breaches, hacks, ransomware demands, and data loss, marked its first appearance as a survey option choice by quickly claiming the number one spot among perceived high risks to firm profitability.

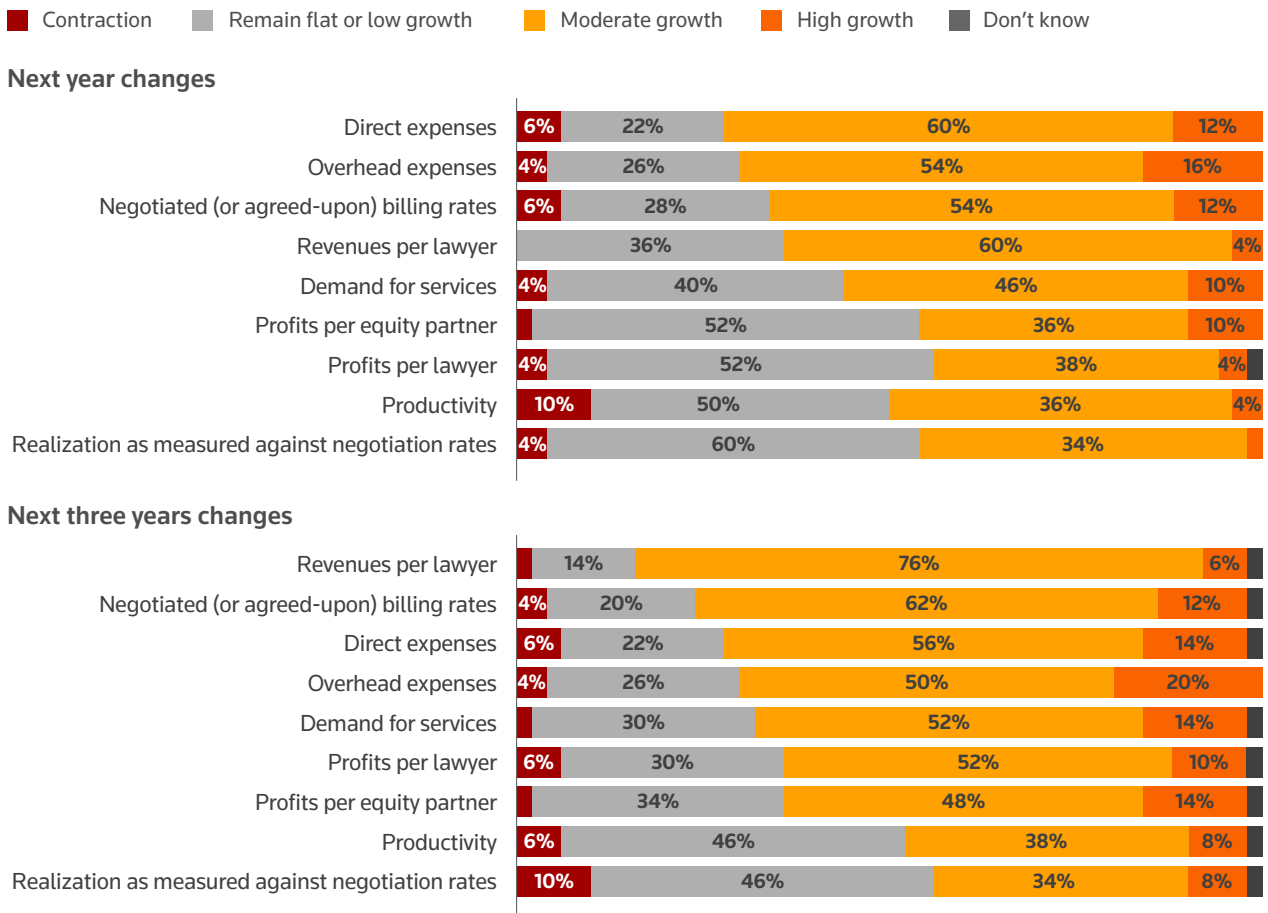
In last year's report, the top three high-risk factors all involved talent concerns and rising talent cost. This year, associate salary increases was cited by 32% of respondents as a high risk to profitability; but last year's top concern, lawyer recruitment and retention, which was cited by 51% of respondents, fell off greatly as a perceived risk factor this year, with just 28% citing it as a high risk to profitability.

Several other risks, all of which could be seen as *operational* risks — worries over the impact of under-performing lawyers, downward pressure on fees from clients, and insufficient leverage of technology — all receded somewhat this year, compared to last year. Employee productivity edged up a bit from last year, with almost one-quarter (24%) of respondents now citing it as a high risk to profitability.

Expectations for the legal market

Given their views on the challenges they face, law firm business leaders have set clear expectation of what they may see in the legal market over the next year and in the near term.

Figure 2: **Expectations for the legal market**



What change do you expect to see in the following financial performance indicators for your firm over the next year/three years? Base: Total sample (n=50)

Source: Thomson Reuters 2022

Well over two-thirds of respondents expect both direct and overhead expenses to see either moderate or high growth in 2023, with 72% expecting direct expenses, those consisting of compensation and benefits for all attorneys who are not equity partners, to increase at a moderate or high level; and 70% think that overhead expenses will see moderate or high growth as well.

Both of those figures are up from last year, when just 60% of respondents saw moderate or high growth ahead for direct expenses, and about 49% saw the same for overhead expenses.

This growing concern over the threat that rising expenses of all types pose to law firm profitability is palpable in the survey results. This correlates with business leaders' concern over rising associate salaries and the risk they potentially pose to law firm profitability.

Also worrisome is law firm business leaders outlook for profitability, with expectations for both profits per lawyer (PPL) and profits per equity partners (PPEP) dropping significantly when compared to last year's forecast. In the coming year, 42% of law firm business leaders surveyed said they expect PPL to grow either moderately or at a high level; last year, three-quarters (75%) of respondents were making that prediction. Similarly, 46% of this year's respondents think PPEP will see moderate or high growth, compared to 75% who said the same thing last year.

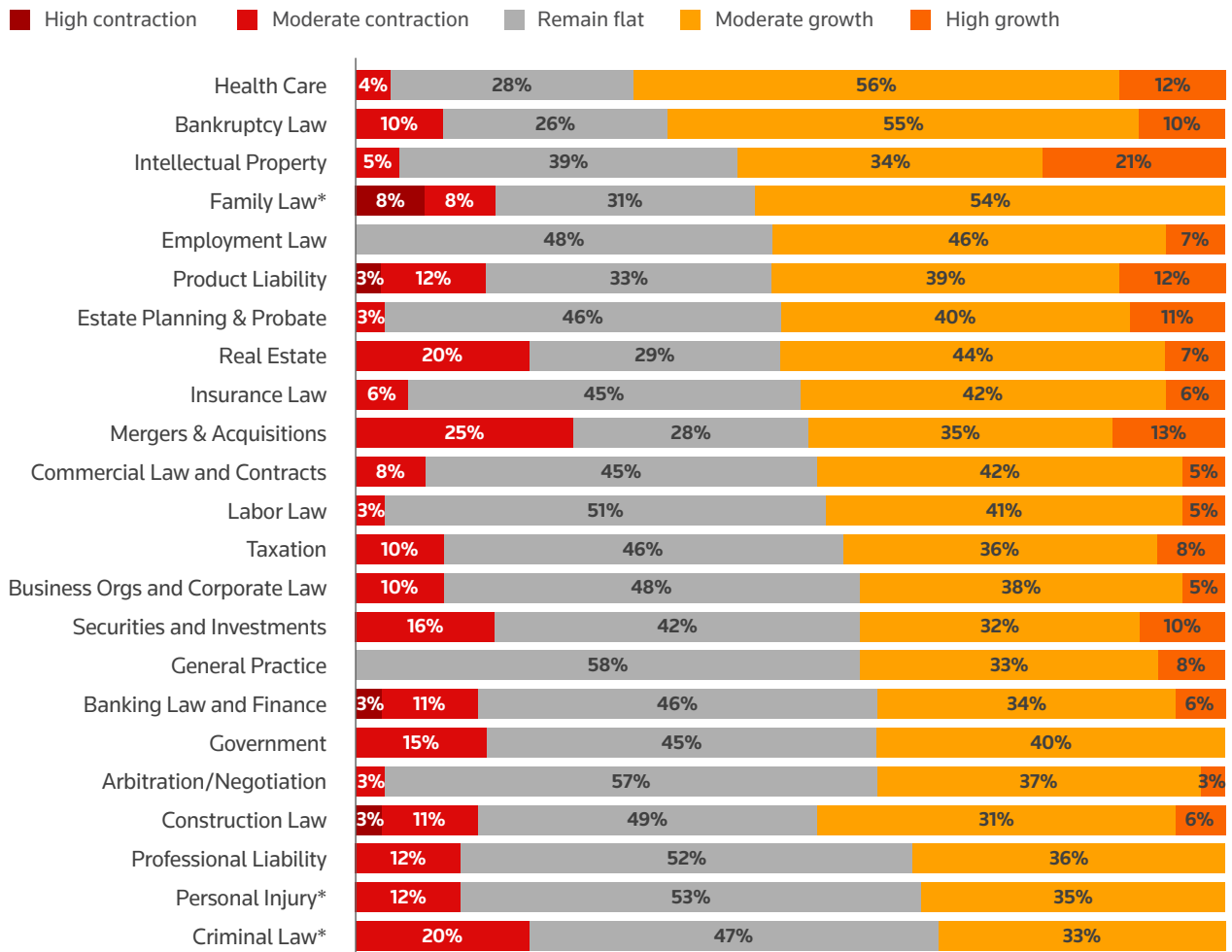
Expectations for productivity also took a bit of a drubbing, with 40% of respondents saying law firm productivity would grow at a moderate or high pace over the next year, compared to 55% who said that last year. Indeed, this year an additional 10% of respondents said they expect productivity will actually *contract* during the coming year.

If there is optimism to be found in business leaders' view of the legal market in the coming year, it may come from their perception that billing rates will continue to go up, offering law firms a clearer path toward stable profitability even in potentially uncertain times ahead. More than two-thirds of law firm business leaders (66%) expect negotiated or agreed-upon billing rates to experience either moderate or high growth.

If you look at the three-year view of law firm business leaders' market expectations, the picture gets a little rosier. Almost two-thirds of respondents (62%) say that both PPL and PPEP will see moderate or high growth over the next three years; and 74% say the same about billing rates. Further, 82% say revenue per lawyer will be seeing moderate or high growth during that three-year period.

The sticky concern over expenses, however, remains in the three-year outlook with 70% of respondents saying they expect both direct and overhead expenses to grow at moderate or high rates.

Figure 3: Growth in firm practice areas



Over the next year, to what extent do you expect the following areas of legal work to grow or contract in terms of billings for your firm? Base: areas offered by respondents' firms (n=13*-46)

Source: Thomson Reuters 2022

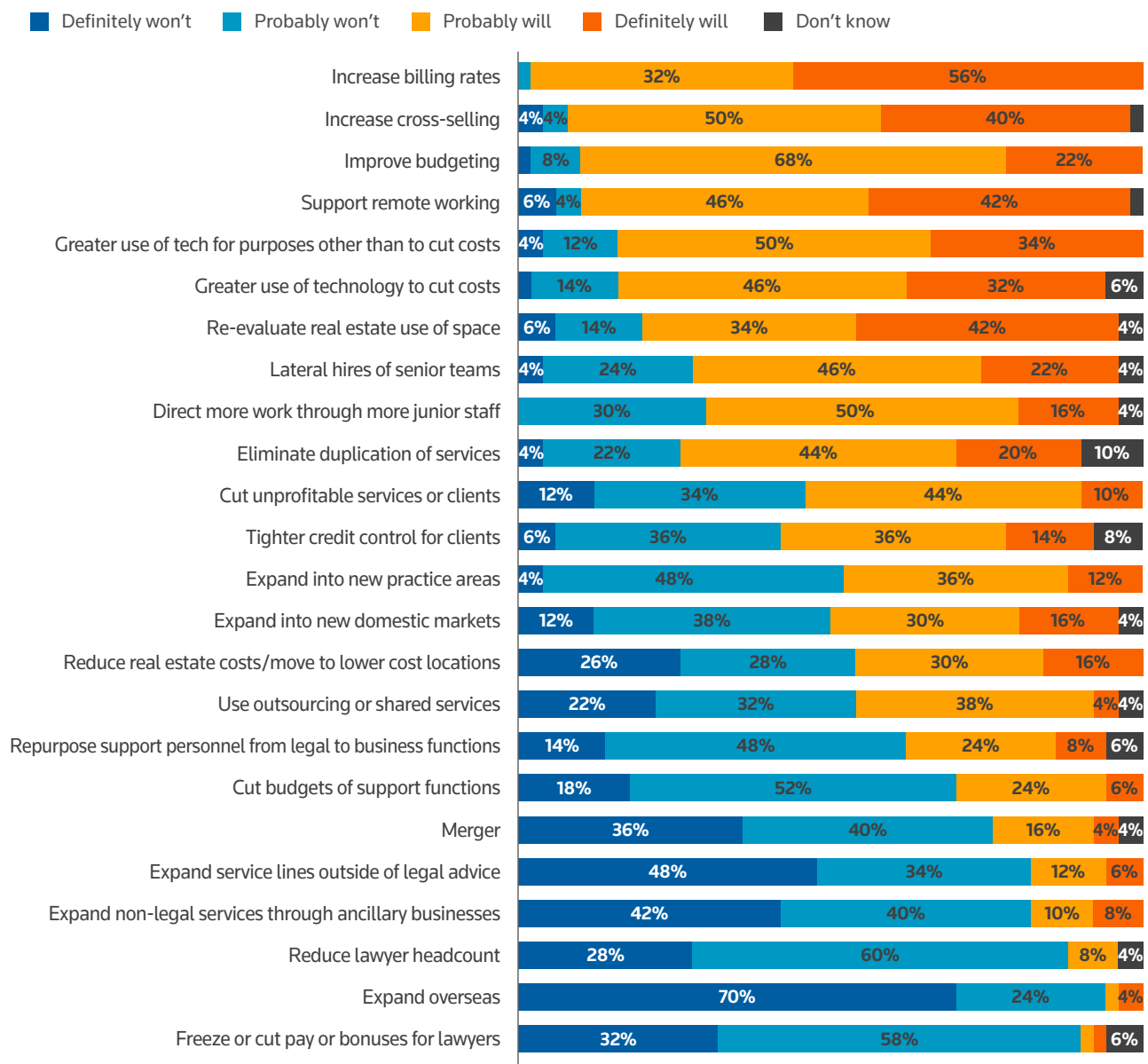
When these same questions of market expectations turn to which of a firm's practice areas will see future growth, many law firm business leaders painted a picture of solid expectations across the board.

In fact, moderate growth was expected for almost all practice areas, with majority percentages of respondents see moderate or high growth levels in healthcare (68%), bankruptcy law (65%), family law (54%), and employment law (53%).

Favored law firm strategies

Law firms clearly see their path to continued profitability running through the valley of steadily rising billing rates. In fact, a stunning 98% of respondents said they definitely will (56%) or probably will (42%) increase billing rates over the next year as a way to improve their firms' financial performance.

Figure 4: **Steps to improve performance**



Over the next year, how likely are you to take the following steps in order to improve your firm's performance? Base: Total sample (n=50)

Source: Thomson Reuters 2022

While raising rates was the dominant performance-improving strategy, it wasn't the only one popular with law firm business leaders. Both increasing cross-selling and improving the budgeting process were cited by 90% of respondents as strategies they would definitely or probably be undertaking in the coming year. Interestingly, other performance-enhancing strategies cited last year fell back among the choices of today's law firm business leaders, including re-evaluating real estate use of space (cited by 82% of respondents in 2021, and 76% this year); directing more work to junior staff (77% last year, and 66% this year); and cutting unprofitable services or clients (63% last year, and 54% this year).

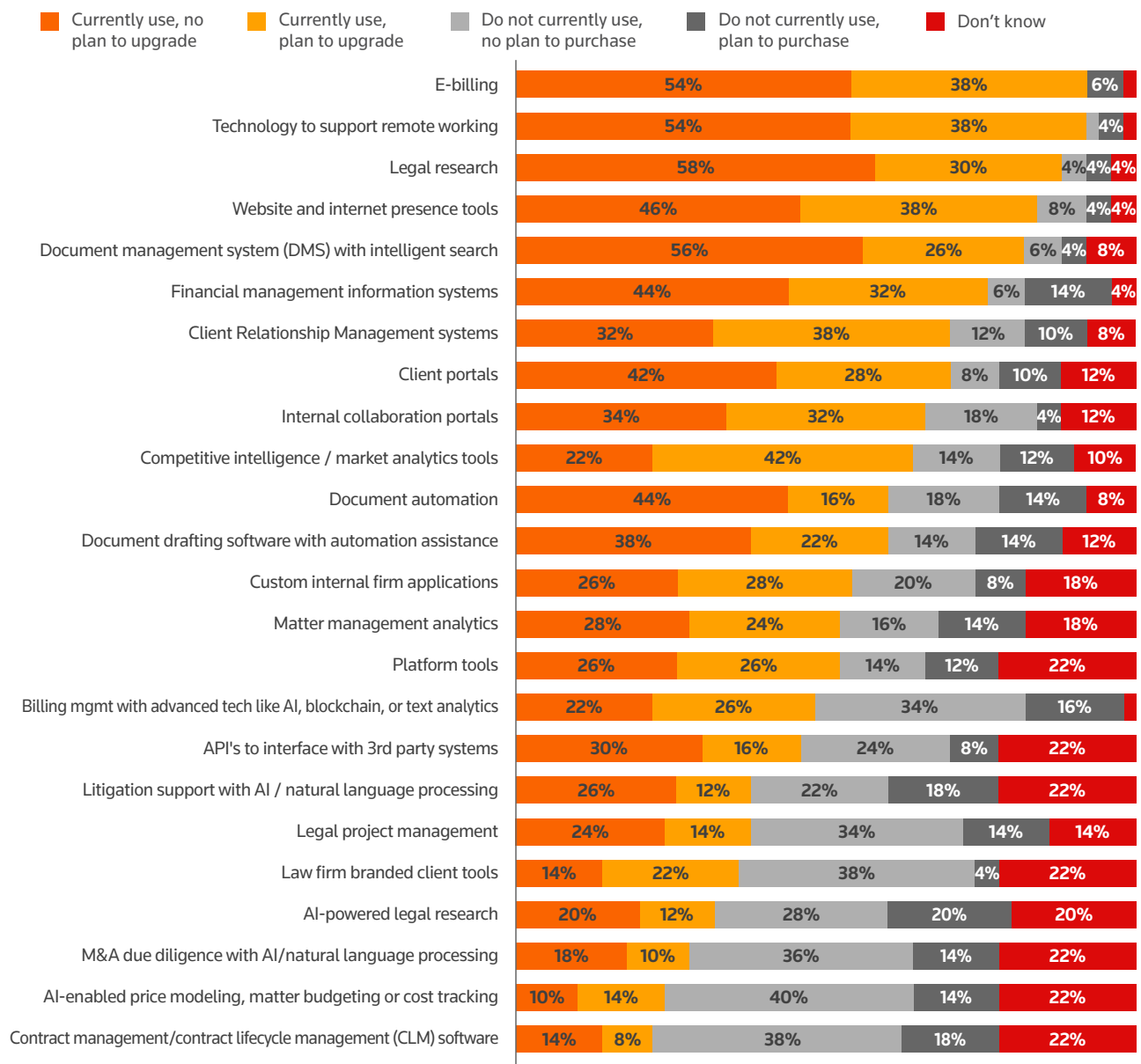
Most significantly, the strategy of making greater use of technology for reasons *other than* to cut costs — last year's top cited strategy with 92% of respondents in 2021 saying that they were definitely or probably would utilize this strategy — fell among the top strategic choices to fourth, with 84% of respondents saying this was still a definite or probable strategy. In fact, the strategy of raising rates was third-most cited last year, meaning these two strategies effectively swapped places as raising rates climbed 13 percentage points in this year's survey.

Clearly, there seems to be an almost singular focus among law firm business leaders toward raising rates as the performance strategy of choice, perhaps because such a unilateral move is relatively easy to accomplish as compared to encouraging cross-selling of services throughout the firm or evaluating and then deciding which services or clients are no longer profitable for the firm to manage. It is also possible that some of the decline in popularity could be attributable to a feeling among law firm business leaders that the steps they'd taken in 2022 were sufficient to accomplish their desired outcomes, so continuing to employ those steps would be of little efficacy.

Looking at technology strategies

In Figure 4, we noted that the twin strategies of making greater use of technology both to cut costs and for reasons *other than* cutting costs received high marks from law firm business leaders. That begs the question, however: What *types* of technology solutions are law firms currently pursuing and *why*?

Figure 5: **Technology implementation**



Do you currently use the following software/technology solutions or plan to purchase or upgrade them in the coming year? Base: Total sample (n=50)

Source: Thomson Reuters 2022

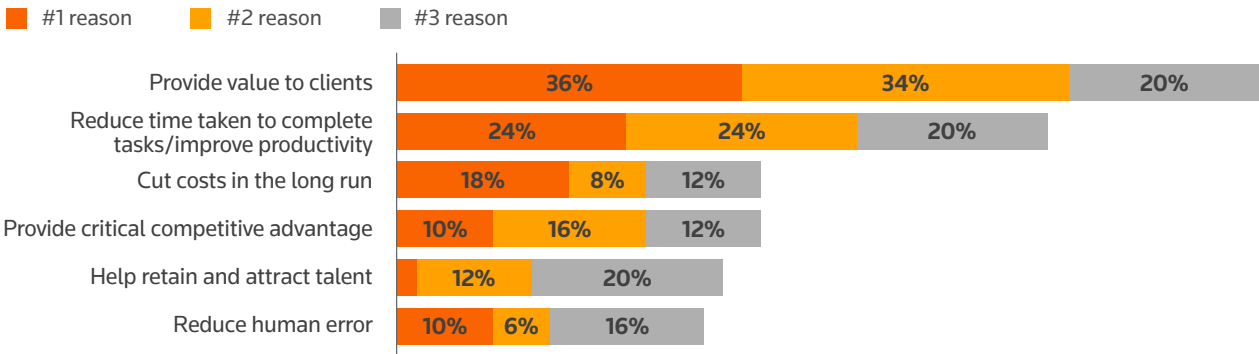
By clearly prioritizing the benefits of technology investments, especially for reasons other than cost savings, law firms are now looking to technology to help achieve other goals such as increasing efficiency, improving the client experience, and producing better firm financials.

Not surprisingly then, investments in e-Billing, technology to support remote working, and legal research were, similar to years past, among the top choices for tech solution investment. Across the board, many other tech initiatives were being cited by a majority of law firm business leaders as those they currently use or plan to upgrade. These included tools to enhance firm efficiency, such as document management and financial management tools. Also high in mentions were client-facing relationship tools such as relationship management systems, client portals, and an enhanced website and internet presence.

Other tech solutions that were cited as those not currently being used, but would be likely purchased within the coming year include AI-powered legal research, with 20% of respondents noting this impending purchase, and litigation support with artificial intelligence / natural language processing (18%). These top choices for new tech solution purchases show that law firm business leaders are not shying away from advanced technology and the high-powered boost that AI-driven data analytics could give a firm.

With such a premium on technology in the minds of many law firm business leaders, it may be clear that they've gotten the message that those firms that wait to implement these crucial technologies risk finding themselves at a competitive disadvantage in the marketplace.

Figure 6: **Reasons for using advanced technology**



How important are the following factors in decisions to use advanced technology for your business? Base: Total sample (n=50)

Source: Thomson Reuters 2022

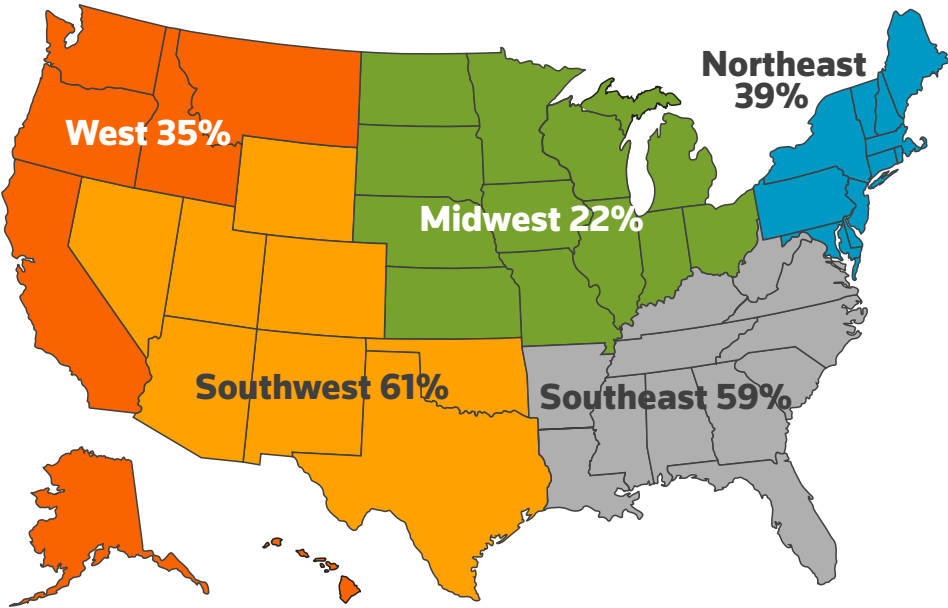
When asked their reasons for using advanced technology solutions, 70% of law firm business leaders cited providing value to clients as their first- or second-ranked reason. Improving productivity was ranked by 48% of respondents as a first- or second-ranked reason, while cutting costs was noted by 26%.

Given the numbers, law firm business leaders are seeing the value they provide to clients as strongly linked to their use of advanced technology and a top reason why they pursue these solutions. Whether using advanced tech to create further internal efficiencies that can lower costs and turnaround time for clients, or positioning the advance tech outward to offer clients enhanced services, clients are the driving force — at least in the minds of many law firm business leaders.

Domestic expansion

For those firms saying they were probably or definitely going to expand into new domestic markets – roughly half of the firms surveyed – strong majorities indicated a preference on where to locate those new offices.

Figure 7: Preferred regions of expansion



You indicated that you are considering expanding into new domestic markets. Which of the following regions are you considering for expansion? Check all that apply. (n=23)

Source: Thomson Reuters 2022

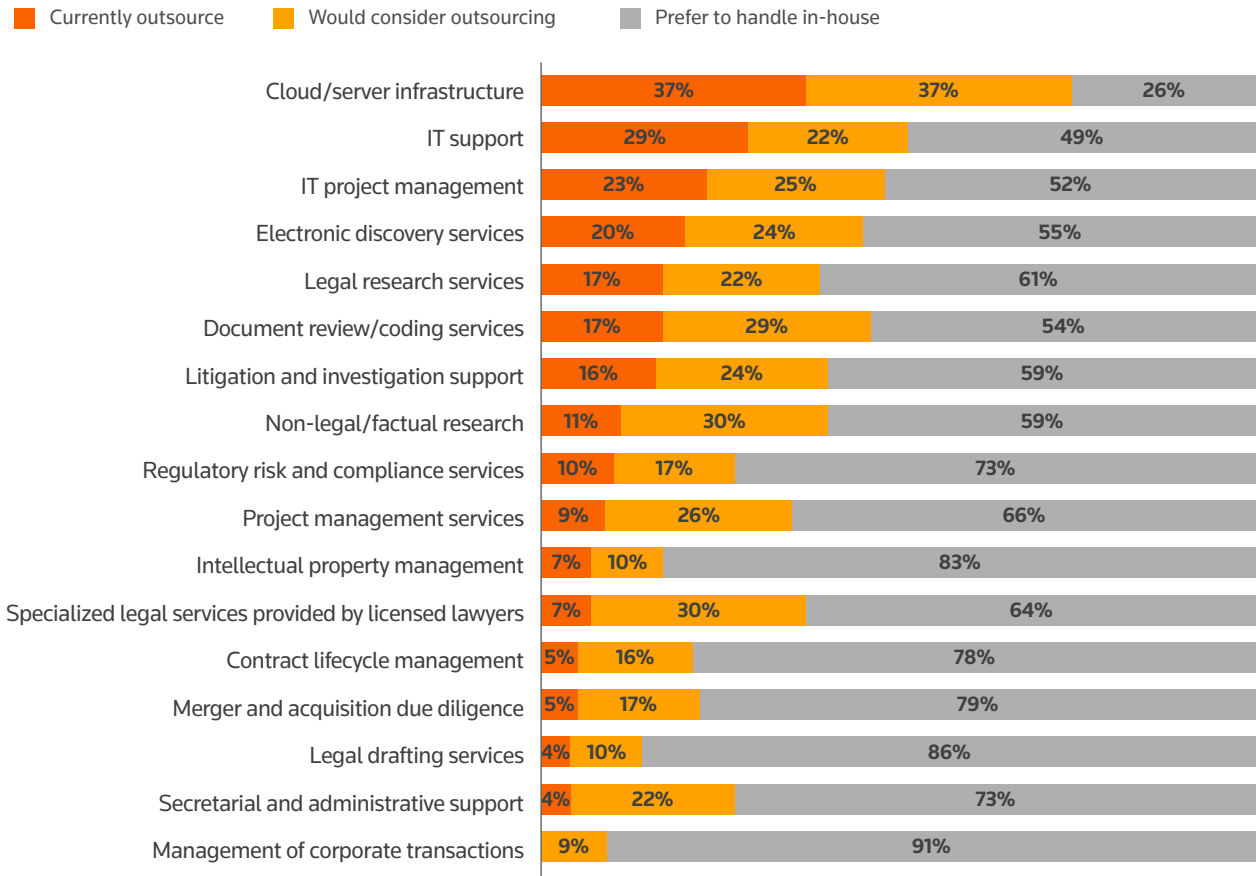
Almost a similar percentage of law firm business leaders said they are targeting regions in the southern half of the United States for domestic expansion, with 61% saying the Southwest and 59% saying the Southeast. The next most popular region for expansion, the Northeast, was a full 20 percentage points behind at 39%.

This could point to the underdeveloped legal market possibilities in the southern United States, especially as some midsize cities – Nashville, Richmond, Tulsa, Reno – are beginning to rival their larger counterparts like Atlanta, Dallas, Las Vegas, and New Orleans as economic powerhouses with burgeoning legal needs.

Outsourcing

When firms were asked what strategies they were planning to pursue to enhance their financial performance, almost half (46%) said they were either definitely or probably going to outsource certain legal functions in the coming year, roughly the same percentage that said this last year.

Figure 8: **Legal functions being outsourced**



Which of the following functions do you currently outsource (either all or part) or would you consider outsourcing? (n=37-49)

Source: Thomson Reuters 2022

Diving deeper into exactly what functions firms were planning to outsource, it is apparent that more than one-quarter of respondents were already outsourcing their cloud/service infrastructure (37%) and their IT support (29%).

Yet, the percentages saying they are currently outsourcing these functions dropped off considerably compared to last year's survey — and it's unclear why. The variance may simply be due to different firms responding to the survey than has been the case in years past. It may also be that, given more uncertain economic conditions, more firms prefer to keep these functions in-house rather than spend the money to have someone else do them.

Notably, though, looking at last year's results, after the top three functions that survey respondents cited as already being outsourced, there was a steep drop off. This year that drop was much less steep, and an increasing number of functions were cited as currently outsourced by more than 20% of respondents than last year.

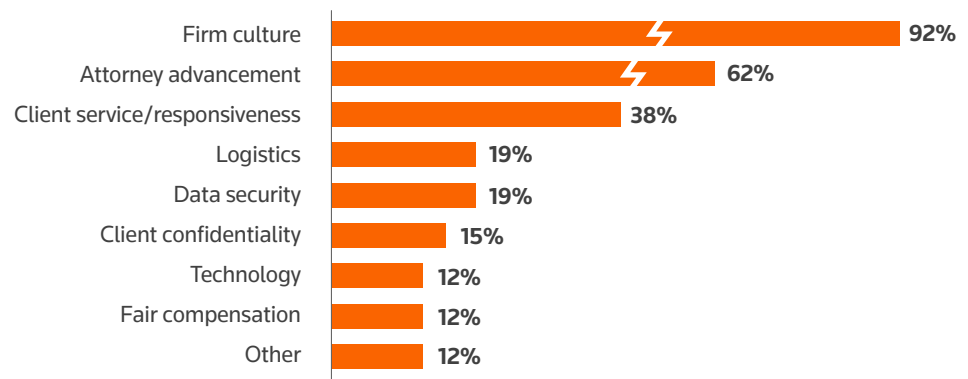
Remote working

The post-pandemic truism that “remote working is here to stay” received a big shot in the arm from law firm business leaders in this year’s survey. An overwhelming majority (88%) identified supporting remote work as a performance-improvement strategy that they definitely (42%) or probably (46%) will take in the coming year (see Figure 4).

That’s a sizable jump from last year when 62% said they would probably take steps to support remote work and *no respondent* said they would definitely do that.

Clearly, law firm leaders are seeing that their workforces are quickly and likely irreversibly becoming hybrid or *split*, in which some workers come to the office, some work remotely exclusively, and the majority do a combination of both. Managing such a mixed or split workforce has its own challenges, as many law firm business leaders pointed out.

Figure 9: **Challenges to managing a split workforce**



Which of the following factors, if any, represent the greatest challenges to managing a split work force? Please select up to three factors. Base: those who selected managing a split workforce at Q5 (n=26*)

Source: Thomson Reuters 2022

A vast majority of firm business leaders (92%) cited promoting firm culture as the biggest challenge they face in managing a split workforce. That number climbed even from last year when 88% of respondents said this.

Interestingly, other concerns such as those regarding attorney advancement and client service/responsiveness grew in the minds of respondents this year, compared to last, while others, such as technology fears, receded. All of which may point to law firm business leaders, and the legal industry in general, getting more comfortable with remote working as a fact of today’s professional working life, and concerns having moved on to how to best manage this new style of working.

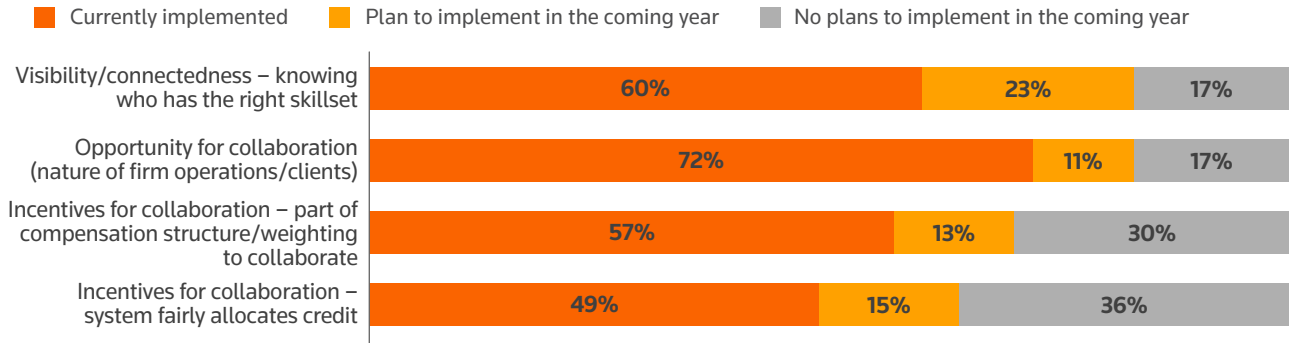
Collaboration

Collaboration — long a mainstay of helping law firms maintain their work quality, improve efficiency, and promote business development — has taken on additional importance as remote working appears to have become permanent. Many law firm leaders have enacted or plan to enact specific strategies to encourage further collaboration throughout the firm, with the most common being enacting methods to identify opportunities for collaboration within firm operations, with 72% of survey respondents saying they have already implemented this strategy.

A majority of firms (60%) also said they were encouraging collaboration by incorporating measures to enhance the visibility of lawyers with specific skillsets when they are needed. This was also the fastest-growing tactic, with 23% of firms saying they were planning to implement this program within the coming year.

Interestingly, incentive-oriented methods to promote collaboration — providing compensation incentives for collaboration, currently used by 57% of firms; and incentivizing collaboration with systems that fairly allocate credit for work, 49% — stayed roughly the same from last year. At the same time, improving visibility into skillsets within the firm is something 23% of firms plan to implement in the coming year, which could be an indication that law firms intend to find other ways to look inward to find collaborative opportunities, rather than paying incentives.

Figure 10: **Strategies to increase firmwide collaboration**



Increasing collaborative behaviors amongst fee earners within firms can be a means of improving firm performance. Please indicate your firm's current state of implementation for the following strategies to increase collaboration. (n=46-48)

Source: Thomson Reuters 2022

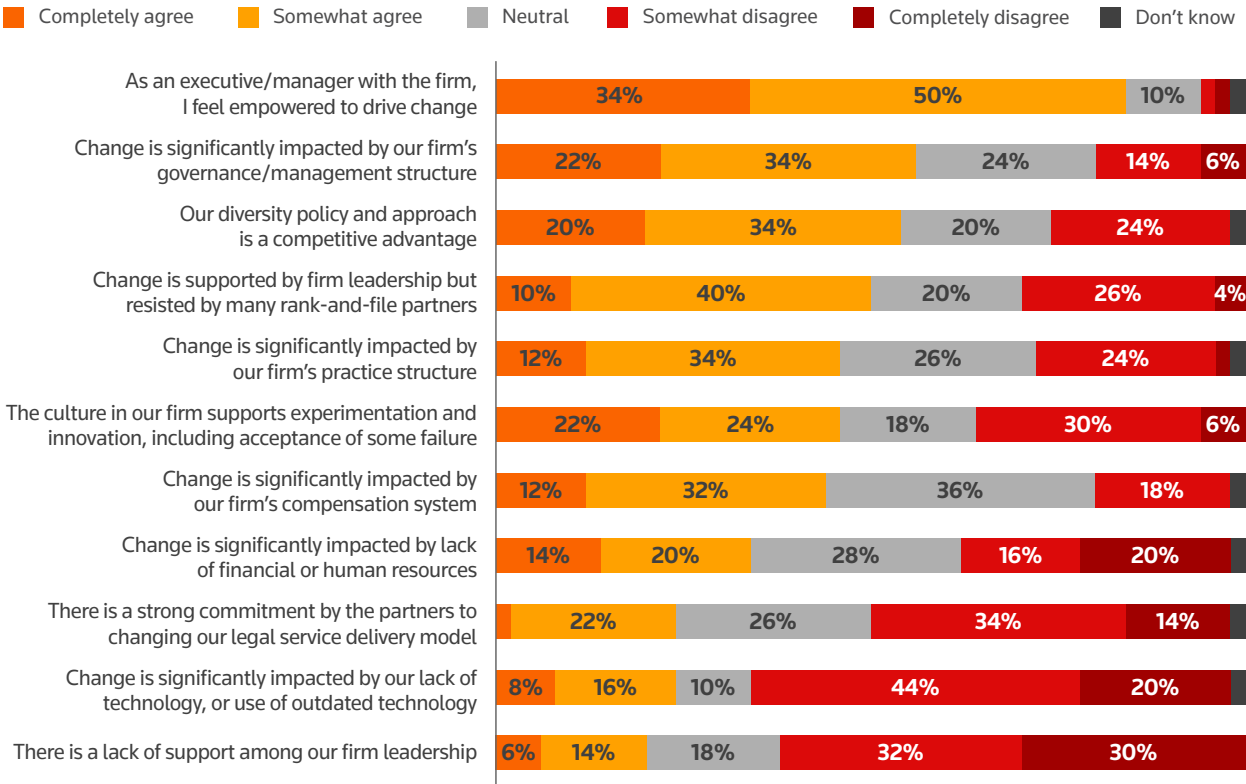
Support for change

Even as the dramatic upheaval of the pandemic ebbs and remote working becomes more commonplace, *managing change* continues to be a hot topic.

While many law firm business leaders may feel whipsawed between what seems like an end to the worst of the pandemic and the beginning of what may be an extended period of economic and geo-political uncertainty, their feelings of empowerment to drive change within their firms has only strengthened. A whopping 84% of respondents said they are empowered to drive change in their firms, a steady increase over last year and the year before.

Further, those saying there is a lack of support from firm leadership for this action fell to 20%, compared to 24% who said that last year.

Figure 11: **Support for driving change within the firm**



To what extent do you agree or disagree with the following statements related to your firm's culture and approach to managing change? (n=50)

Source: Thomson Reuters 2022

Worryingly, those law firm business leaders who felt change within the firm was significantly impacted by the firm's governance or management structure climbed to a majority, 56%, compared to just 43% who felt that way last year. At the same time, respondents who said the firm's diversity policy and approach are a competitive advantage for the firm dropped to 54%, compared to 60% last year. And the percentage of firm business leaders who said change was being resisted by rank-and-file partners ticked back up slightly to 50%

Taken together, this may mean that business leaders themselves feel like they can act as agents of change within their firm, but that there remain significant hurdles, including firm structures and even their own colleagues, to enacting any firmwide change that could improve performance, financial stability, and competitiveness. Perhaps during these uncertain economic times, law firm business leaders may feel a degree of uncertainty within their firms themselves.

Conclusion

Law firm business leaders seemed eager to look forward and return to some kind of normalcy in regard to offering legal services to their clients. Numerous challenges remain, however, both within the firm itself and, increasingly, from potential external threats.

Of course, many leaders remain optimistic. Most expect growth in many of their firms' practices and profits. Others see potential benefits in the technology investments they were planning, counting on new tech tools to help them increase efficiency, improve the client experience, and produce better firm financials.

As law firm business leaders begin to map out their business strategy for the next few years amid a growing feeling of empowerment to make real change within their law firms, they are wise to occasionally shift their gaze outward, ensuring they will be ready for any dark clouds ahead. This split focus will prove a challenge, but the seasoned professionals in charge of today's law firms see many of these potential obstacles coming and have time to develop strategies to lead their businesses through to continued profitability.

Thomson Reuters Institute

The Thomson Reuters Institute brings together people from across the legal, corporate, tax & accounting and government communities to ignite conversation and debate, make sense of the latest events and trends and provide essential guidance on the opportunities and challenges facing their world today. As the dedicated thought leadership arm of Thomson Reuters, our content spans blog commentaries, industry-leading data sets, informed analyses, interviews with industry leaders, videos, podcasts and world-class events that deliver keen insight into a dynamic business landscape.

Visit thomsonreuters.com/institute for more details.

GEORGETOWN LAW

Center on Ethics and the Legal Profession

Center on Ethics and the Legal Profession

The Center on Ethics and the Legal Profession at Georgetown Law is devoted to promoting interdisciplinary research on the legal profession informed by an awareness of the dynamics of modern practice; providing students with a sophisticated understanding of the opportunities and challenges of modern legal careers; and furnishing members of the bar, particularly those in organizational decision-making positions, broad perspectives on trends and developments in practice. For more information on the Center, visit our website (Center on Ethics and the Legal Profession) or contact Mitt Regan at regan@law.georgetown.edu.

The Center on Ethics and the Legal Profession www.law.georgetown.edu/legal-profession.



True Value Partnering Institute

In its 7th year, the True Value Partnering Institute is dedicated to the learning, networking and professional advancement of legal business professionals that take the lead in driving value. Members are placed into cohorts which “meet” virtually each month and are eligible to participate in cross-cohort groups that collectively explore specialty topics of interest.

Learn more at: <https://tvp-institute.com/index.php>.

