



2021

Law Firm Business  
Leaders Report



This report looks at how law firm business strategies have shifted in response to recent upheaval, how firms assess their current challenges, and the paths they envision for their businesses going forward.

## EXECUTIVE SUMMARY

Like virtually every other business, law firms were significantly impacted by the events of the last year. At the same time, law firms are somewhat unique to the extent that their work can and often does stretch across nearly all industry sectors and geographies. In addition, their business is usually built on a combination of work for both businesses and individuals.

Rapidly shifting markets, however, place law firms at the center of seemingly opposing forces: they must be available to help their clients navigate new challenges while at the same time focusing internally to adapt to new realities such as remote work.

Time horizons for strategic planning have been dramatically compressed during this period of fast-changing events. Lightning-fast responses and pivots often remain the norm. Firms must not only navigate a market environment that can dramatically change on a daily basis, but they also must develop new long-term strategic visions.

This report looks at how law firm business strategies have shifted in response to recent upheaval, how firms assess their current challenges, and the paths they envision for their businesses going forward.

In a noticeable shift, this year's responses show a much higher degree of concern over staffing and personnel issues than in years past, with problems of recruiting and retaining talent being widely considered a potential high risk to future firm profitability.

Yet despite strong concerns over challenges that may hinder future firm profitability, law firm business leaders remain quite bullish on the future of the legal industry. On the whole, these business professionals show little concern for potential market contraction and instead, expect positive performance in the legal market in years to come.

These business leaders also understand that changes must be made in order to more effectively position for the future. The majority are looking at upgrading their current technology stack or adopting a new one. Understandably, most view tech changes as the means to deliver greater value to their clients. But perhaps surprisingly, few consider improving their tech as a way to attract talent, even though 86% of respondents see potential risk to their firms related to recruiting and retaining talent.

And finally, even though most law firm business leaders feel empowered to drive change within their firms, it seems likely that most of the change they are expected to deliver will relate to operations or finance rather than client-facing changes. Uncertainty remains for many firm leaders over how committed their partners are to changing legal service delivery as it relates to clients.

### **Methodology**

What makes this report unique is its focus on the thoughts of the business professionals who lead today's law firms. As with years past, respondents to this year's report are not drawn from a firm's attorneys. Instead, responses are gathered from the allied professionals responsible for running their firm's business operations. A total of 55 respondents from law firms with more than 50 lawyers participated in this year's survey, which was conducted in August and September 2021.

# KEY RISKS TO FIRM PROFITABILITY

After what was expected to be a difficult year for law firms, 2020 ended on a positive note for many, as demand began to recover and previous cost-cutting helped support profitability. Success and growth has, for the most part, continued into 2021.

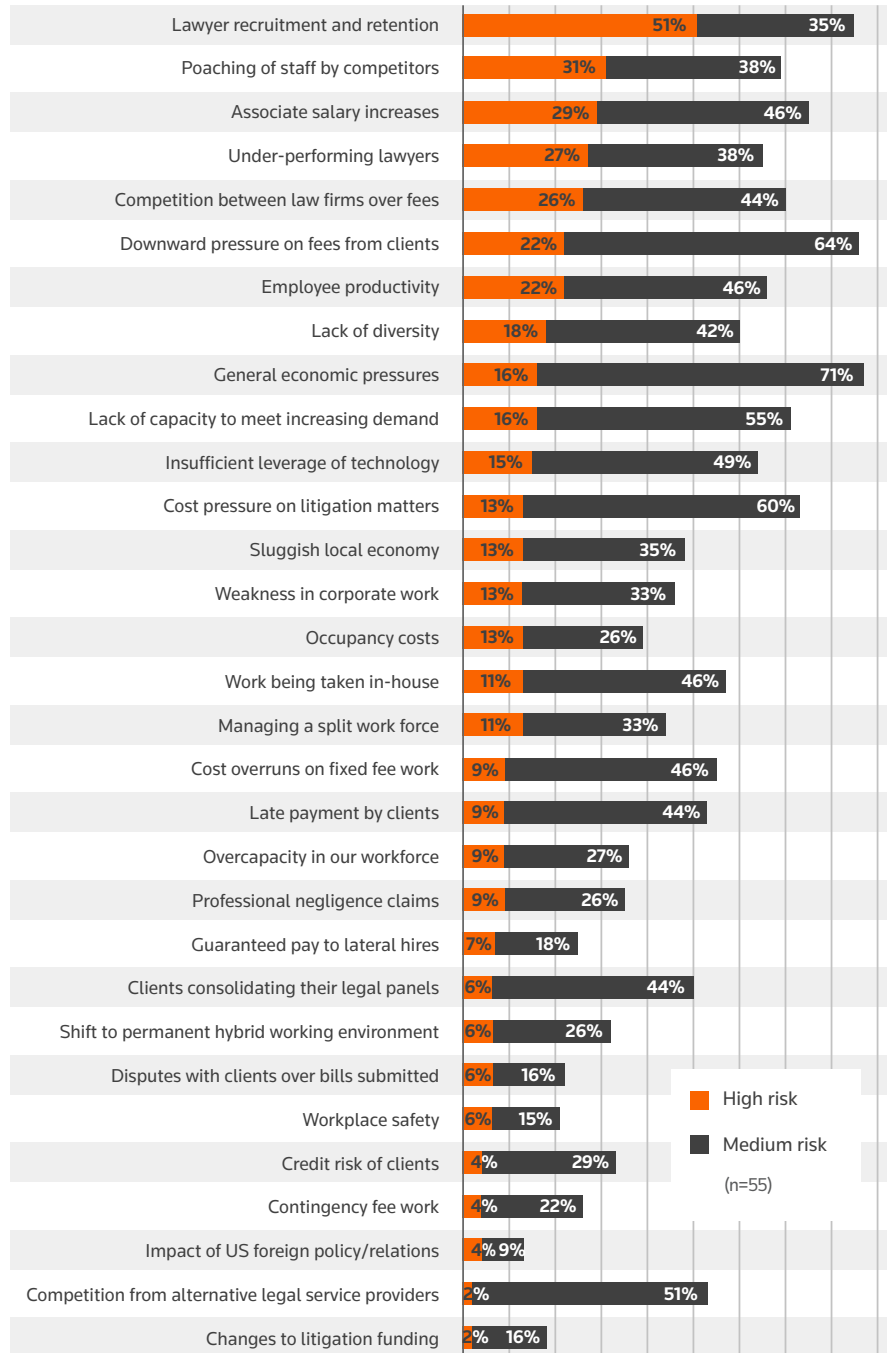
But the bounce back, ironically, is also producing the biggest threats to profitability going forward. In the 2020 iteration of the Law Firm Business Leaders Report, underperforming lawyers and general economic pressures were seen as the top threats to law firm profitability, as firms faced uncertainties of how the pandemic would impact their business.

In last year’s report, concerns about talent didn’t even make the top five for the highest risks to firms’ futures, but have now increased significantly. More than one-half of firms (51%) now view acquiring and retaining talent as a high risk to future profitability. And it is the most commonly cited high risk by a significant margin. The second-ranked risk at 31% is staff being poached by competitors; and associate salary increases is a close third at 29%.

Accordingly, the top three high-risk factors all involve talent and the rising talent wars, with significant implications for costs, turnover, and firms’ abilities to have optimized, or in some cases, even adequate staffing for matters. Looking further out, today’s talent wars could also complicate firms’ plans for growth and expansion.

Fee pressures (both from clients and competitors), insufficient leveraging of technology, and occupancy costs are still seen as risks this year. Concerns about underperforming lawyers and general economic pressures — the top concerns last year — have subsided somewhat as firms grow more confident in their abilities to adapt and manage through a still-volatile global economy.

Figure 1: **Greatest risks to profitability**



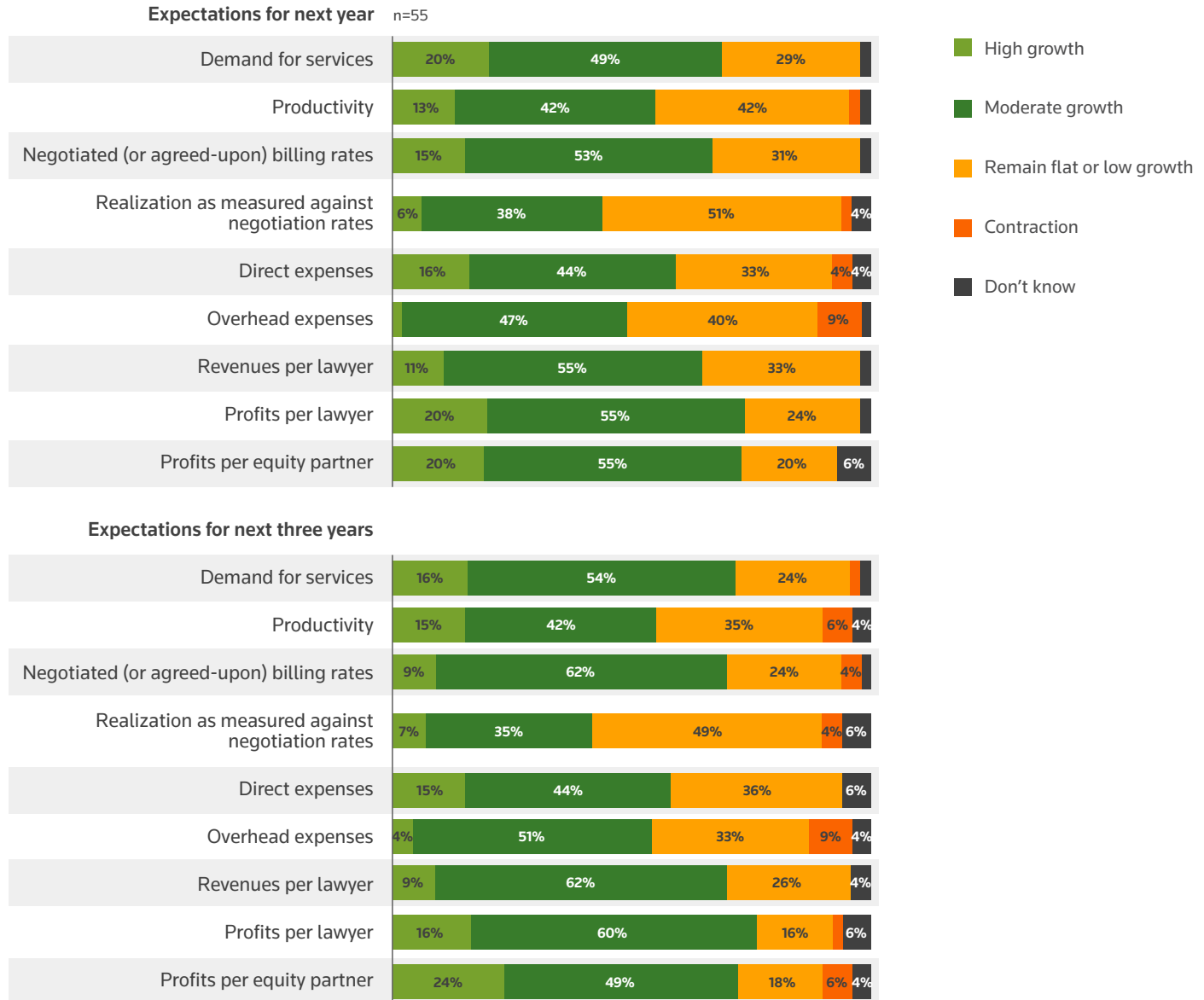
To what extent do you think the following factors are risks to the profitability of your law firm?

Source: Thomson Reuters

# EXPECTATIONS FOR THE MARKET

Growing confidence is clearly seen in leaders' bullish expectations for law firm performance going forward.

Figure 2: **Expectations for law firm metric performance**



What change do you expect to see in the following financial performance indicators for your firm over the next year/three years?

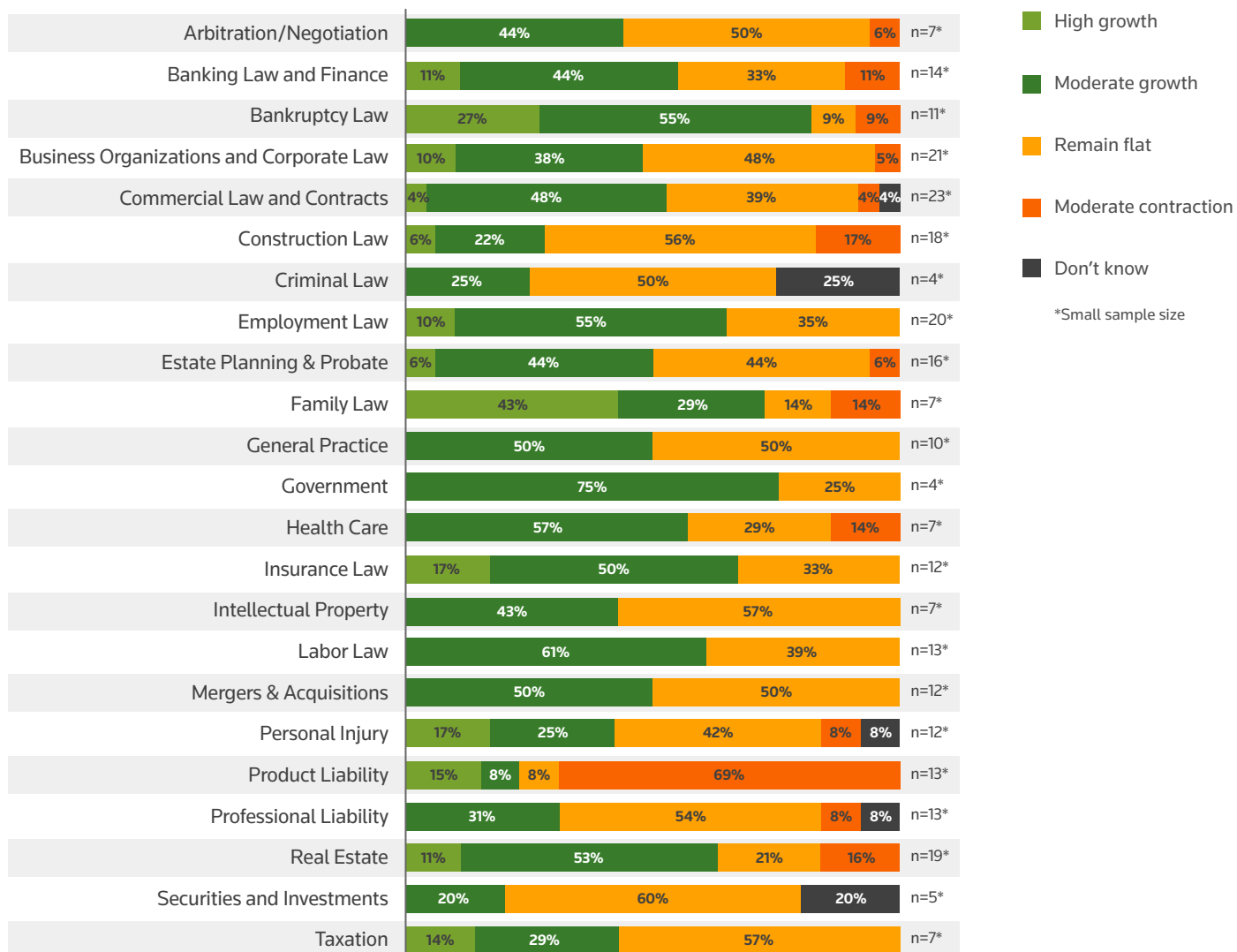
Source: Thomson Reuters

Looking across a broad range of firm performance measures, expectations are consistently positive for growth over the next year and even more so over the next three years. In particular, expectations for potential high growth in demand, billed rates, and revenues per lawyer are rising.

However, the aforementioned talent wars also mean that firms are bracing themselves for higher direct expenses in the form of additional attorney compensation and a rise in overhead expenses is also expected. This is not surprising, given the sharp drop in overhead over the last year as a result of work-from-home trends and other changes. Even so, firms are anticipating that the rebound in both direct and overhead expenses will be manageable.

One area where optimism is slightly tempered is realization against negotiated rates. One factor may be that many firms have prioritized collections and realization over the past year in an effort to support cash flow against the economic uncertainties. Firms may be anticipating higher scrutiny of invoices as clients look for ways to trim costs.

Figure 3: **Anticipated practice area growth** n=55



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?

Source: Thomson Reuters

But combining all these factors, law firm business leaders expect continued strong-to-moderate growth in profits, as expressed on both a per-lawyer and per-equity-partner basis. While the growth may not match the pace of growth seen at the end of 2020 and thus far in 2021, these leaders are clearly optimistic that they can achieve sustained profit growth in the future.

Fueling this optimism are expectations for growth across most practice areas. In particular, family law and bankruptcy are expected to see high growth — the former because of pent-up demand from the pandemic, and the latter from fallout of the economic effects of the pandemic as businesses continue to close their doors as government economic relief measures end.

At the same time, the outlook for banking and business organization work is positive, reflecting strong recent demand for corporate work. Expectations for real estate law are similarly positive due to massive shifts in the real estate market. Tax and estate planning are also viewed positively.

Product liability is one of the few practices seen as being at risk for slight-to-moderate contraction. There remains quite a bit of uncertainty for the direction of criminal law as it remains unclear what the trends will be for caseloads and courts' abilities to manage them.

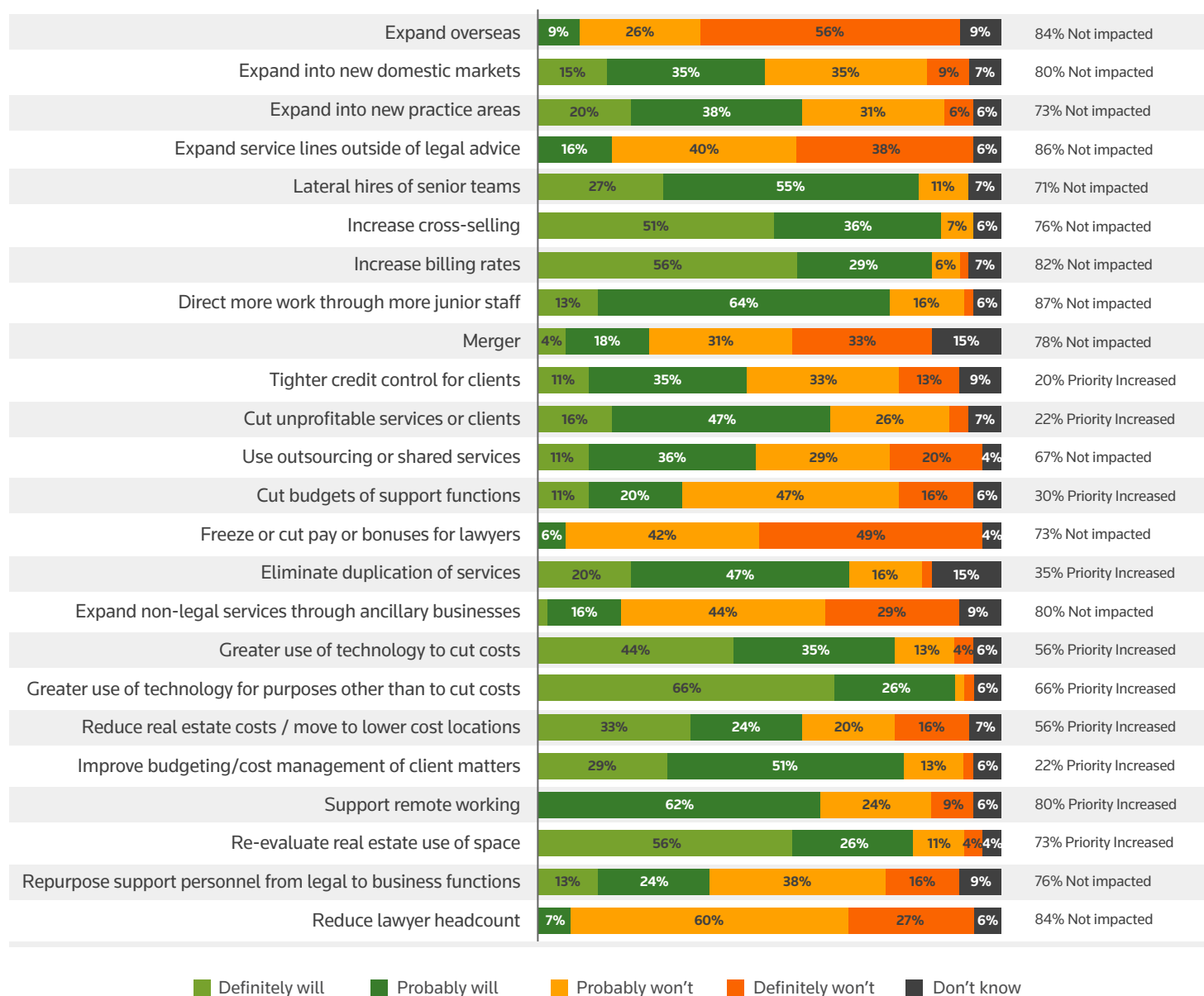
But overall, the optimism for practices stands in marked contrast to the perspective of firms one year ago. Firms were bracing themselves for potential contraction — or at least flat-to-slow growth — across a broad range of practices. Those concerns have now eased for the most part, and one year later, have been replaced by a sense that most practices look to be on-track for growth.

In particular, M&A has dramatically flipped in its outlook. Last year, 40% of law firm leaders expected either no growth or contraction. Today, firm business leaders are nearly unanimous in expecting M&A to hold steady or grow with one-half of survey respondents expecting moderate growth in the practice.

# CHANGES IN LAW FIRM STRATEGY

Expectations for higher practice growth may mean little, however, if firms are not able to implement strategies to meet the demand and do so profitably. Competition with other firms will remain intense as demand continues to recover. In addition, the Arizona State Supreme Court’s recent decision allowing non-law firm entities to begin providing limited legal services signals that competition from alternative legal service providers (ALSPs) — including the Big Four consulting groups — will continue to grow.

Figure 4: **Steps to improve performance** n=55



Over the next year, how likely are you to take the following steps in order to improve your firm's performance? Please indicate how the priority for that step was impacted by the pandemic.

Source: Thomson Reuters



In response to these rising competitive pressures, it's not surprising that law firms are doubling down on their use of technology. Greater use of technology to reduce costs emerged as the top strategy for improving performance last year, and remains one of the highest priorities this year.

But greater use of technology for objectives *other than* cutting costs has now surpassed that as the top priority, with fully two-thirds of firm business leaders (66%) saying they definitely planning to do so. When adding in those leaders who say they will probably adopt a similar strategy, the numbers surge to an overwhelming 92%, significantly surpassing any other strategy.

At the same time, firms are moving quickly to look at non-technology areas where they can pare their cost structures. Other definite or likely priorities include re-evaluating real estate use of space (82%), improving budgeting and cost management of client matters (80%), directing more work to junior staff (77%), eliminating duplication of services (67%), and cutting unprofitable services or clients (63%).

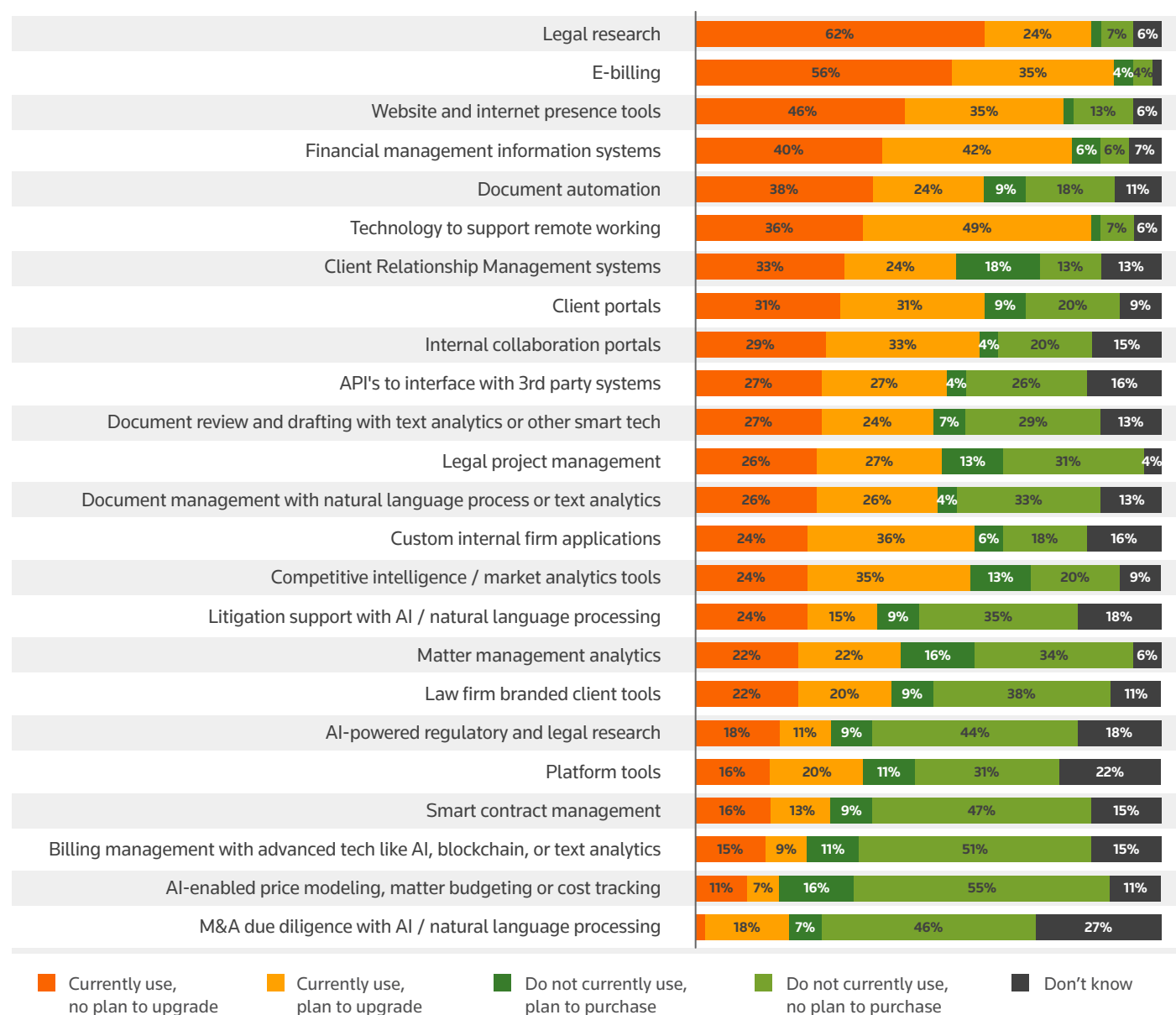
Meanwhile, strategies to increase revenues are taking even greater precedence than non-technology cost cutting, with increased cross-selling (87%) and charging higher rates (85%) at the top of the list of strategies that respondents report they either definitely or likely will pursue.

# A CLOSER LOOK AT TECHNOLOGY STRATEGIES

With greater use of technology to cut costs or for reasons other than that being the top two steps that firms say they definitely or probably will pursue to improve performance, it is clear that law firm business leaders view technology as critically important to their business's future.

By prioritizing benefits other than cost savings, firms are now looking to technology to help achieve goals such as increasing efficiency and improving workflows for both attorneys and support staff, creating a better client experience and better firm financials.

Figure 5: **Technology adoption and investment** n=55



Do you currently use the following software/technology solutions or plan to purchase or upgrade them in the coming year?

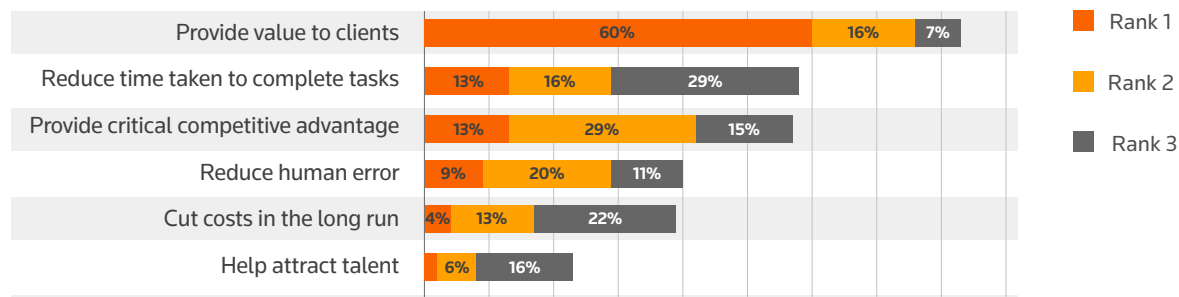
Source: Thomson Reuters

To achieve those goals, firm business leaders identified some top areas of planned investment, with some of the fastest-growing areas being matter management analytics, client relationship management, legal project management, competitive intelligence/market analytics, and price modeling/matter budgeting/cost tracking.

Anticipated adoption levels will push penetration for each of these systems well past the majority level of firms. Thus, those firms that are still developing their plans to implement these technologies risk falling behind their peers and finding themselves at a competitive disadvantage.

In particular, when considering advanced technologies — such as those based on artificial intelligence or natural language processing — business leaders said the top reason for adoption is providing value to clients, followed by reducing time to complete tasks, and creating critical competitive advantages.

Figure 6: **Why use advanced technologies?** n=55



How important are the following factors in decisions to use advanced technology for your business?

Source: Thomson Reuters

Indeed, firms are viewing technology as key strategic components for not only improving performance but for differentiating themselves in the market. In a rather surprising finding, firm business leaders were least likely to use advanced technology as a way to help attract talent. Given the high level of concern related to talent that was expressed by a large number of these leaders, it's surprising that while many of them view tech as a way to create a competitive advantage in the eyes of their clients, far fewer are considering it as a way to set themselves apart in the eyes of potential talent.

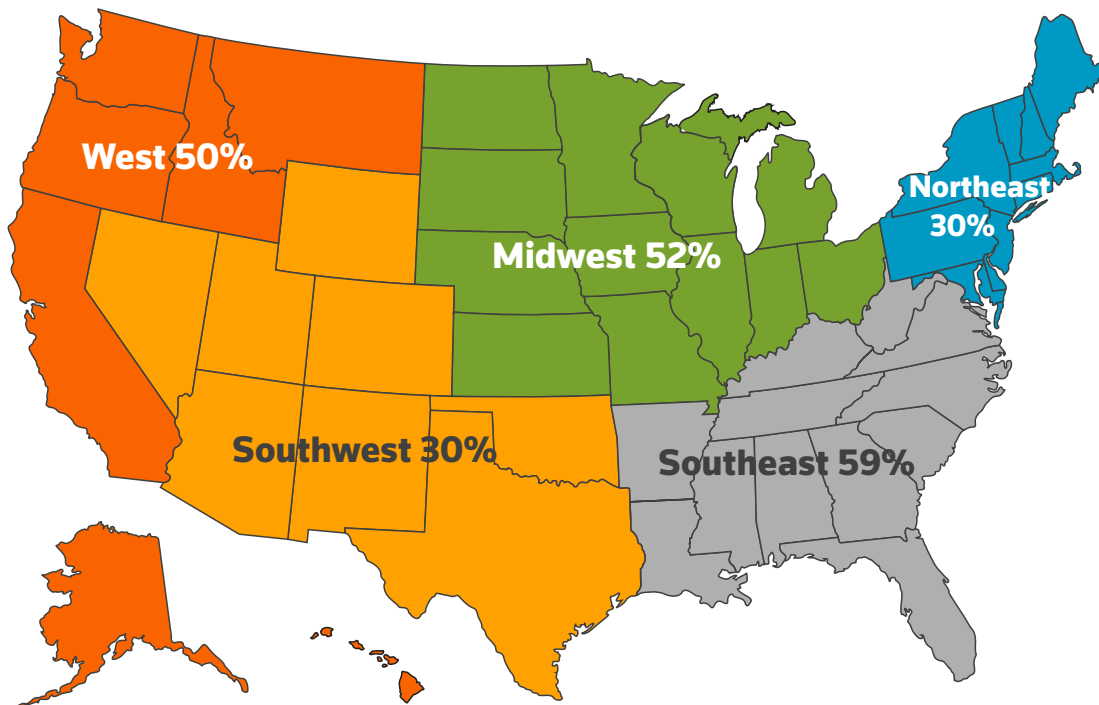
Looking again briefly at planned technology adoption and upgrades from Figure 5, certain technologies — such as legal research, e-billing, and financial management information systems — are already used by more than 80% of firms, making them nearly ubiquitous. And many of those firms are planning to upgrade their systems to ensure that they are using the most current technologies available for those functions. Those remaining firms who fall into the category of “do not currently use/no plan to purchase” should carefully consider why they are taking that position. Those firms stand a real risk of falling demonstrably behind in the very technologies that nearly all their competitors have adopted. This is particularly noteworthy given the number of firms that are specifically viewing tech as a way to create a competitive advantage in a tight market.

## EXPANDING FOOTPRINTS

In planning for growth, as seen in Figure 4, firm business leaders indicate they are generally looking to stick with or even double-down on their core competencies. Less than one-quarter of firms are planning to either expand service lines outside of legal advice or expand non-legal services through ancillary businesses, according to respondents.

Instead, with the favorable outlook for demand growth, many firms are contemplating whether to grow the number of their offices. Fully one-half of firm business leaders say they definitely or probably will seek to expand into new domestic markets. The majority of respondents say they expect to expand into the Southeast, West, and Midwest regions, showing a broad range of regions that business leaders view as ripe for growth.

Figure 7: **Regional targets for domestic expansion** n=27



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.

Source: Thomson Reuters

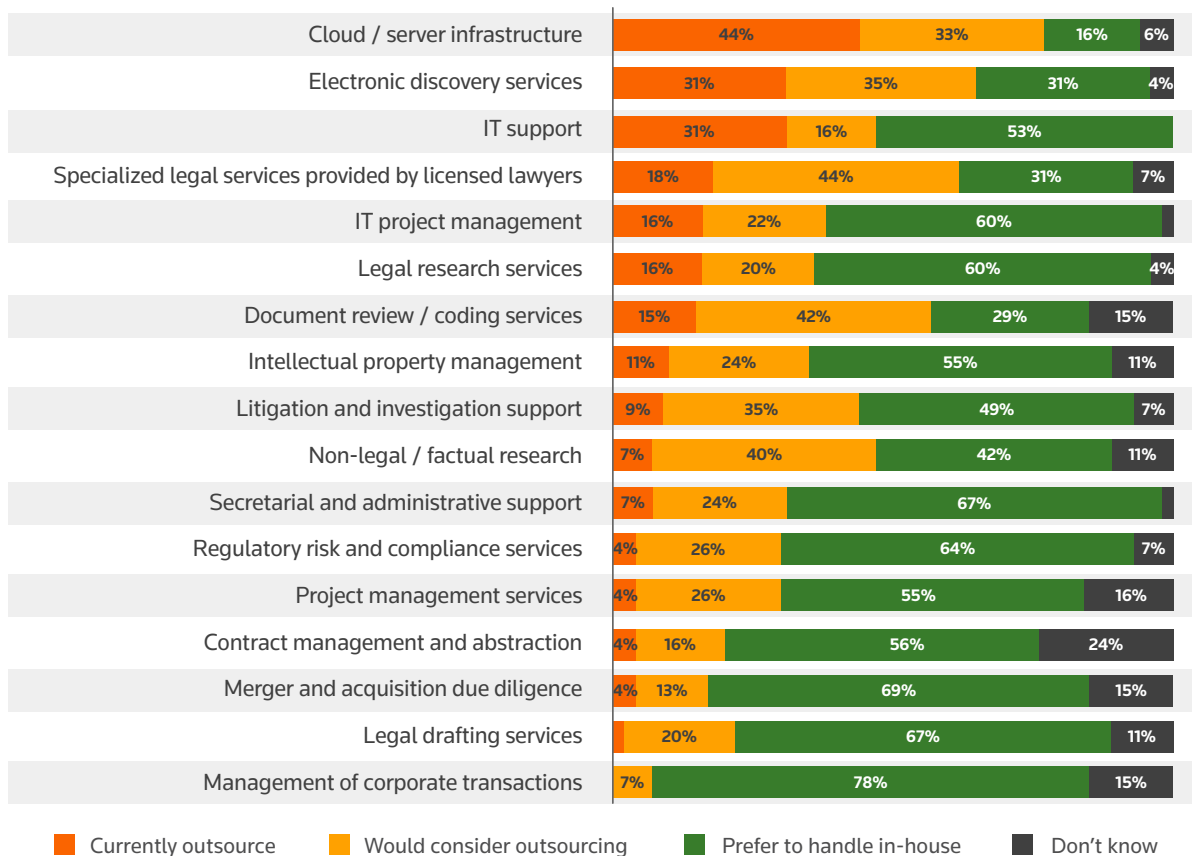
## OUTSOURCING

Outsourcing of services is one area where firms can potentially improve their performance. According to the findings in Figure 4, 47% of respondents either definitely or probably will look to outsource services as a way to improve law firm performance over the next year. This gives the appearance that outsourcing is likely to be rather common. However, when these leaders were asked about their plans for outsourcing specific functions, the majority said they prefer to handle most tasks in-house.

Of the various tasks mentioned, only IT support is currently outsourced by more than one-quarter of firms, according to respondents. Factual research, electronic discovery, document review, and legal research services were all seen by more than 20% of respondents as tasks they would potentially outsource. But only electronic discovery and factual research came close to a majority of respondents saying they either currently outsource that function or would potentially outsource that work in the future.

The findings from Figure 4 and Figure 8 taken together suggest that the concept of outsourcing may be more popular in theory than in actual practice.

Figure 8: **Outsourcing of law firm functions** n=55



Which of the following functions do you currently outsource (either all or part) or would you consider outsourcing?

Source: Thomson Reuters

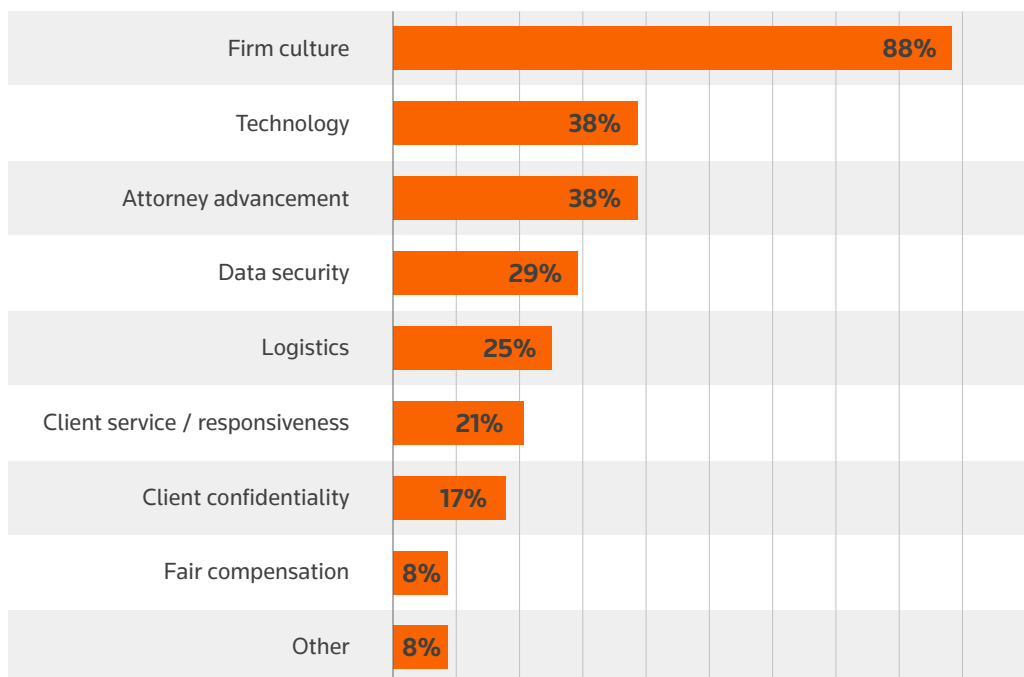
## REMOTE WORKING

It's frequently said in some circles that "remote working is now here to stay." But after the sudden shift to remote work last year, firms are being cautious about mapping out what the future of work will look like for their firms.

Business leaders from a strong majority of firms — 62% percent — say supporting remote working is a step they will probably take to improve performance, per Figure 4. However, none of the surveyed firms were willing to say that they *definitely* plan to do so.

Most firms — an overwhelming 82% — recognize that re-evaluation of their real estate use of space is a step that they definitely or probably will take. At the same time, however, they see several challenges to managing a split work force. By far the biggest challenge is firm culture, which was cited by 88% of firm business leaders, more than twice the level of any other challenge. Technology, attorney advancement, data security, and logistics were the other top challenges to remote working cited.

Figure 9: **Challenges to managing a split work force** n=24\*



[IF SELECTED MANAGING A SPLIT WORK FORCE MEDIUM OR HIGH RISK]  
Which of the following factors, if any, represent the greatest challenges to managing a split work force? Please select up to three factors. \*Small sample size.

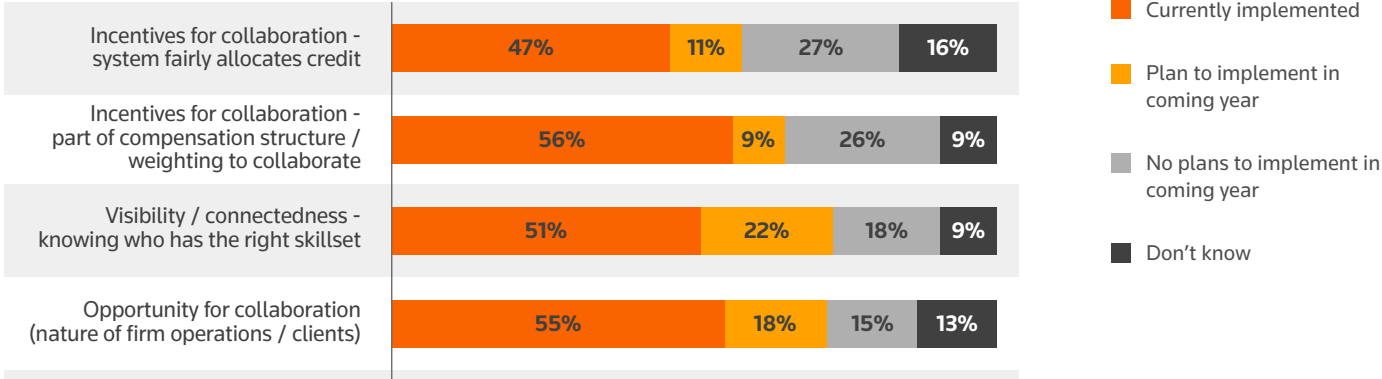
Source: Thomson Reuters

Client service or responsiveness was only cited by 21% of firms as a challenge posed by managing a split workforce, indicating that concerns over client perceptions of work quality and attorney accessibility are not top-of-mind. Additionally, this suggests that client reception to their outside counsel working remotely has been generally positive or at least not considered an impediment.

# COLLABORATION

Effective collaboration within law firms has been key in helping maintain work quality despite the challenges of remote working. Most firms have implemented strategies to increase collaboration within the firm, the most common one being compensation incentives for collaboration, currently used by 56% of firms. A majority of firms also prioritize identifying opportunities for collaboration within firm operations, and/or incorporating measures to enhance visibility in identifying lawyers with specific skillsets when they are needed. The latter tactic may be the fastest-growing, with 22% of firms planning to implement similar programs in the coming year. Many firms (47%) also incentivize collaboration with systems that fairly allocate credit for work.

Figure 10: **Strategies to increase firm collaboration** n=55



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.

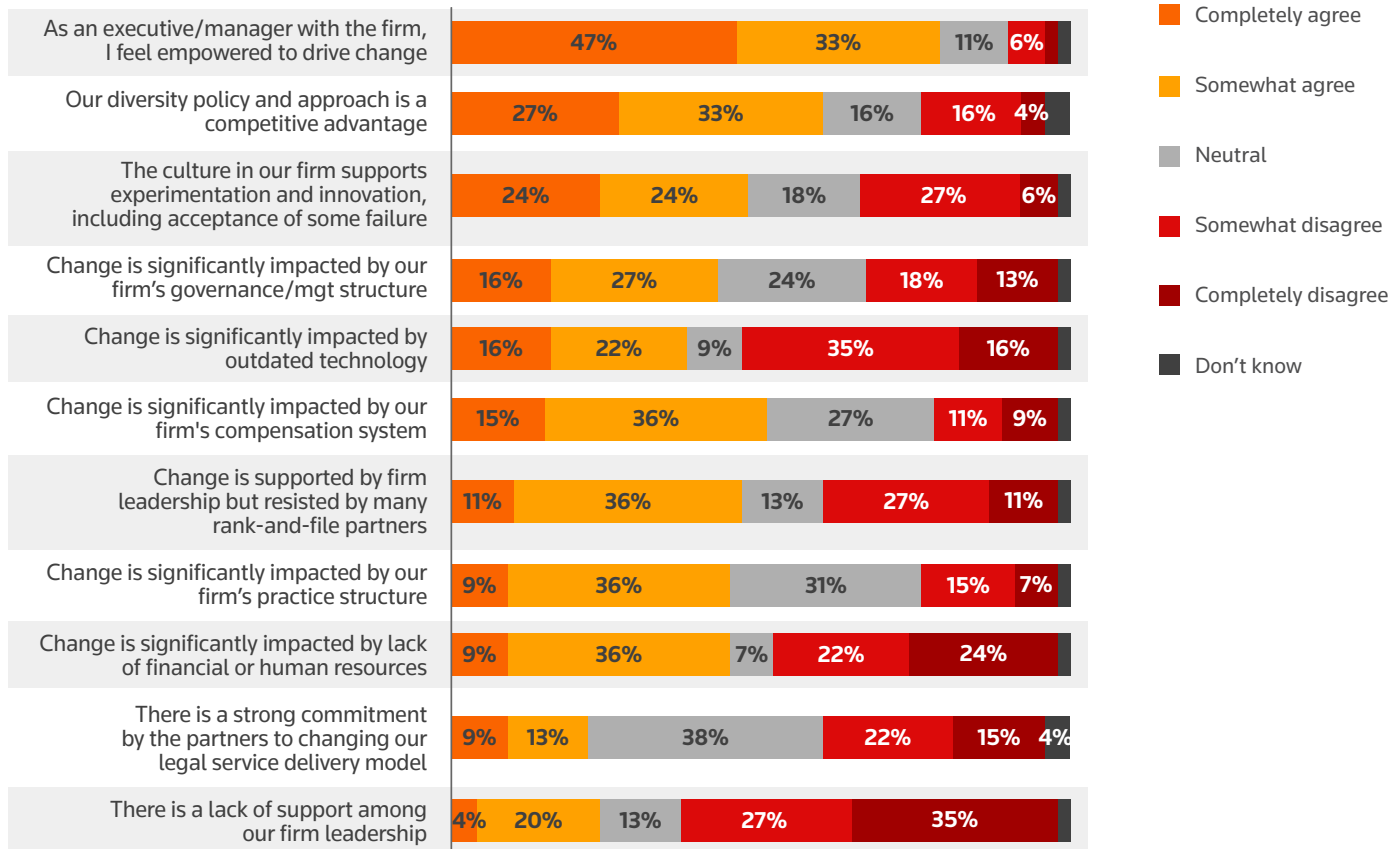
Source: Thomson Reuters

## SUPPORT FOR CHANGE

Change may have been the key watchword of 2020 as firms raced to adapt amid a fast-changing global landscape. Throughout 2021, that landscape has evolved from one of reaction to one that’s strategizing how to navigate and prosper throughout whatever new uncertainties lie ahead.

An overwhelming 80% of law firm business leaders said they feel that they are empowered to drive change at their firm, up from 73% last year. If anything, the rapid-fire changes necessitated over the last year have further increased their confidence in their ability to make changes. And confidence has now spread throughout the firm. Perceived levels of support from firm leadership have held steady, but support from the partner level has jumped significantly. A year ago, 60% of business leaders said change was being resisted by rank-and-file partners — that number has now dropped to 47%.

Figure 11: **Support for driving change within the firm** n=55



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

Source: Thomson Reuters



In addition, some progress has been made in addressing structural barriers to change. The number of respondents who say their firm's governance/management structure, practice structure, or use of outdated technology present impediments to change has dropped. But about one-half still say that compensation systems or lack of financial and human resources significantly impact their ability to make changes.

And though support for driving change is increasing and barriers are being addressed, firms' appetites for change may be pulling back slightly after all the whirlwind of last year. The percentage of law firm business leaders who said they feel that the culture of their firm supports experimentation and innovation, including acceptance of some failure, has dropped from 57% to 48%.

There is one particular area where support may be uniform across the firm, however. While 80% of firm business leaders agreed at least somewhat with the statement that they feel empowered to drive change within their firm, only 22% agreed with the statement that there is a strong commitment at the partner level to changing the legal service delivery model. This raises the question of just what changes these leaders feel empowered to drive if partner commitment to changing legal service delivery is lacking. One possible conclusion is that partners are willing to support changes to the firm as they relate to the firm's operations or other internal considerations, but are more hesitant to commit to changes that would more directly impact clients or how the partners conduct their individual practices.



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## CONCLUSION

Having weathered the storms and disruptions of the last 18 months, law firms have emerged into an environment where they feel generally optimistic about the road ahead.

Significant uncertainties remain, and the road forward may be neither straight nor smooth. But business leaders for law firms now believe they have a clearer view of the challenges, as well as the opportunities in front of them. And the success with which they, for the most part, navigated the events of the last year have produced key lessons as well as some much-needed breathing room. Leveraging both may be critical to achieving continued success.

As the market continues to gain momentum, talent wars are emerging as a critical issue that will impact both costs as well as firms' capacity and ability to produce quality work — a situation that likely will remain for many years to come. Likewise, technology and outsourcing are two levers that firms are hoping will both differentiate their firm from the pack and fend off a growing array of competitors.

Continued growth in legal demand may provide the tailwinds to support the industry in general. But clients will be increasingly looking for value, efficiency, and collaboration from their outside legal partners. Those firms that are focused on the needs of their clients, and are strategically innovative and operationally agile will be best positioned to thrive while moving forward.

With those goals in mind, law firm business leaders are optimistic they can achieve those results.

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