Briefing
SMARTER LEGAL BUSINESS MANAGEMENT

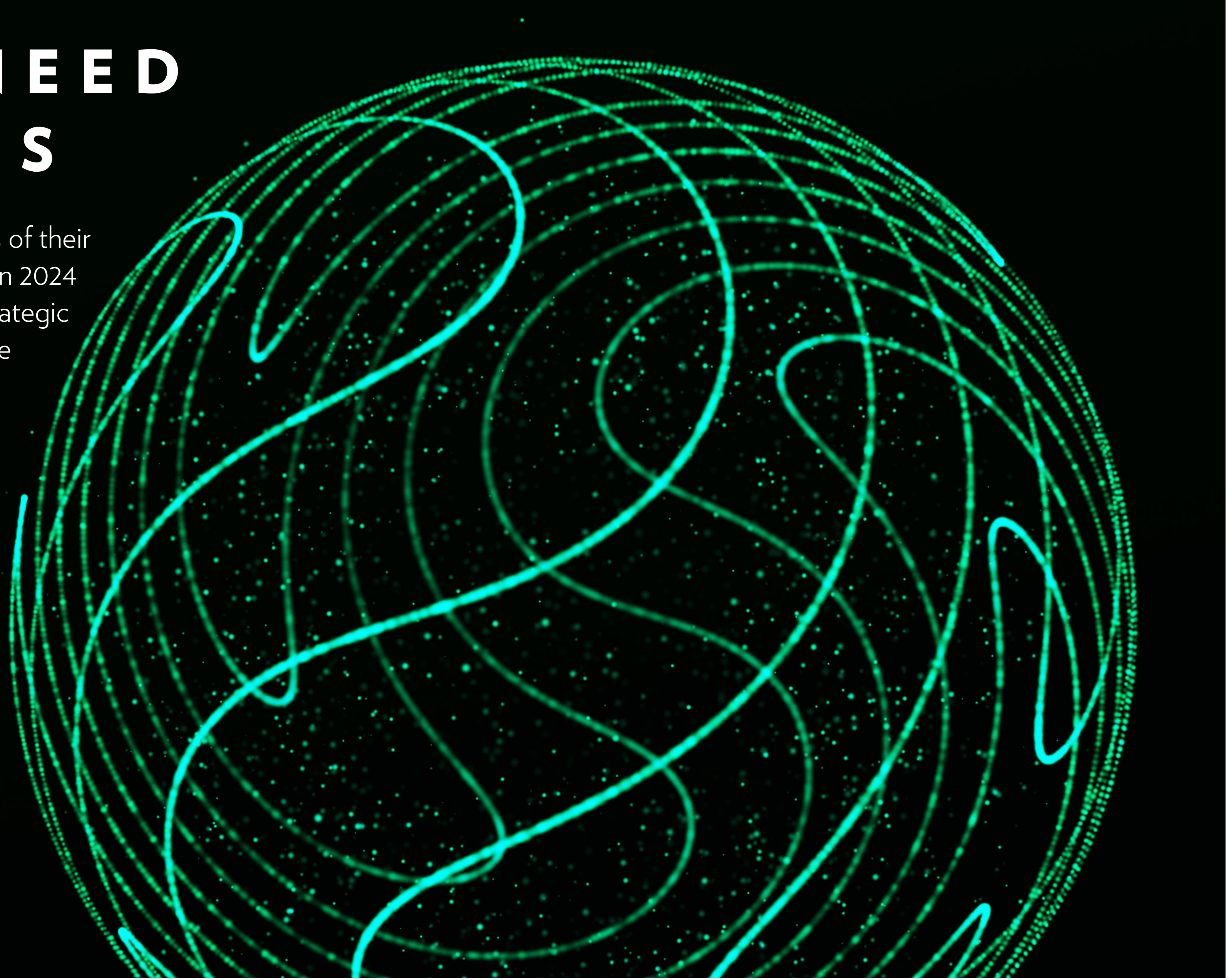
HSBC UK

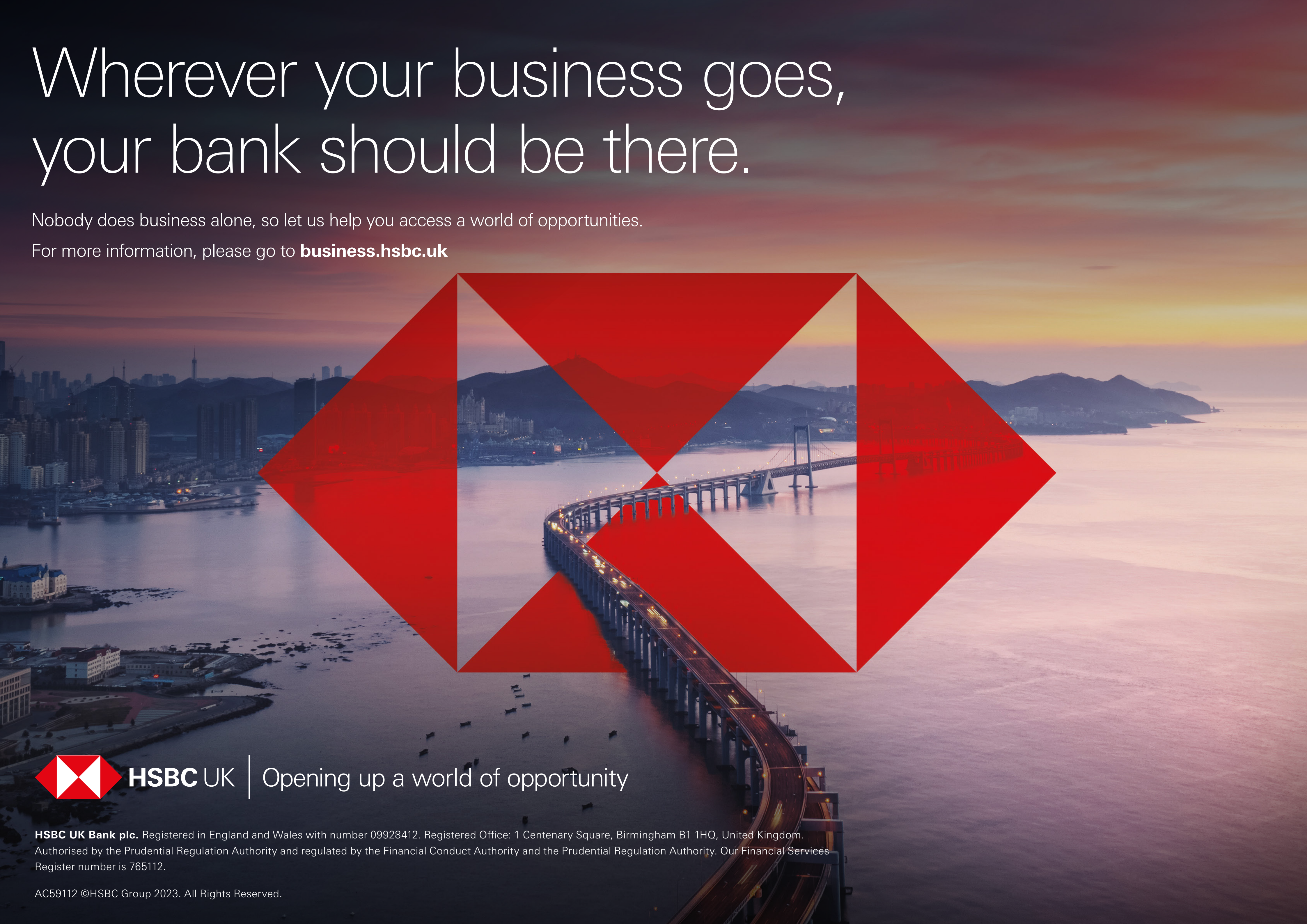
Law firm strategy and investment survey

2023/2024

A FIRM NEED TO FOCUS

Law firms believe the boundaries of their big challenges will keep moving in 2024 — they must identify the right strategic courses to keep pace with change




Wherever your business goes, your bank should be there.
Nobody does business alone, so let us help you access a world of opportunities.
For more information, please go to **business.hsbc.uk**
HSBC UK
Opening up a world of opportunity
HSBC UK Bank plc. Registered in England and Wales with number 09928412. Registered Office: 1 Centenary Square, Birmingham B1 1HQ, United Kingdom. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Our Financial Services Register number is 765112.
AC59112 ©HSBC Group 2023. All Rights Reserved.

The firm of 2023 must meet the challenges of efficiency and ESG

Welcome to **HSBC UK**'s law firm strategy and investment research for 2023/2024. This is the fourth year we've brought you this detailed analysis of trends affecting an always fascinating market. We're very pleased to partner with the legal business management publication **Briefing** again to track how your top pressures, priorities and appetite for business transformation change year on year.

The report is the result of a survey, carried out online through May and June 2023, of 80 senior strategic leaders — CEOs, managing partners, chief operating and financial officers — at leading UK-based law firms. All firms have annual revenues of at least £18m, right up to the very largest and most complex organisations. In places we have compared the views of strategic leaders at firms with total annual revenues either side of the £100m mark. We've also interviewed several participants to learn more about what the data reveals.

The areas explored include appetite for expansion, the competitive landscape and alternative models to the LLP, operational pressure points, the need for new or improved technology, and focus on financial management.

It's particularly encouraging to find over half of these leaders at firms already with an international presence seek more global growth — and very few say they're planning to press pause. Of course, this is against the backdrop of the rapid rise in interest rates this year, a very turbulent talent market and profitability under pressure. Collectively, firms seem to be clear they can't stand still in such an environment.

It's a similar tale of technology investment. Leaders believe it's other law firms with business models making better use of tech — more efficient workflows, organised and innovative with data, or perhaps harnessing the latest in artificial intelligence to power up productivity — who hold most potential to disrupt their market positions.

As UK politicians wrestle with questions on climate change, meanwhile, the legal market is increasing its commitment to lead on carbon reduction. Every year more leaders tell us their firm has adopted an official validated target to hold itself accountable. There's notable growth in the number setting a net zero target this year — in some cases for as early as 2030. This includes much work with procurement and supply chains — but as we can see, they're also spurred on by both clients and employees who view the pace of change here as a priority. The research finds nearly one in ten firms is even moving to assess a client's impact on the environment when deciding whether to work for them.

This annual piece of research helps **HSBC** to understand more about where the market is headed and the needs of our own customers. Thank you to all who took the time to give us this detailed view of the landscape from your firms, and I look forward to discussing the results with you.

VICTORIA RITCHIE
HEAD OF PROFESSIONAL AND BUSINESS SERVICES
HSBC UK

HSBC UK

About Briefing

Briefing is where law firm leaders come for content and connections to help them deliver better outcomes for them and their businesses — available as an app on iOS or Android: **www.briefing.co.uk/briefing-magazine-app**

Briefing on Twitter: @Briefinglegal

Email: editorial@briefing.co.uk

Contact: richardb@briefing.co.uk

www.briefing.co.uk/our-magazines

Strategy and investment 2023: executive summary

We surveyed 80 of the most senior law firm business leaders — CEOs, managing partners and chief financial and operating officers — all at UK law firms with annual revenues of £18m or more. The survey was carried out online in May and June 2023

34%

Of UK law firm leaders have encountered barriers to strategic growth opportunities

06 GROWTH INTENTIONS AND OBSTACLES

There are more law firms represented in the 2023 research that don't have an overseas office (46%) than in 2022 (39%) — and twice as many leaders in this group (6%) plan to build a presence beyond the UK and Ireland this year. We also see that 15% of firms turning over at least £100m a year don't yet have international offices. Among firms already with some international footprint, more than half (54%) of leaders have sights set on further overseas expansion. This remains consistent with responses in 2022. Fewer in 2023 say they are freezing/reviewing such a strategy (7%), and none plan to pull out of overseas markets. One-third of leaders say the firm has considered international growth — but identified barriers to building out. Significantly, just over half of larger-revenue firms have experienced these barriers to growth.

77%

Describe other firms with more tech-driven business models as potentially disruptive

74%

Report an increase in their technology spend compared to 2021 levels

82%

Say firms have KPIs in line with ESG ambitions, or will have in 12 months' time

11 COMPETITION AND CHANGE IN THE 2023 LEGAL LANDSCAPE

Consistent with this research in 2022, other law firms with "more tech-driven business models" were cited by more than three-quarters of respondents as potential disruptors. Almost half (45%) of leaders also consider competitive lateral hiring and 'team carve-outs' as an area of concern. Although three-quarters anticipate more mergers and acquisitions will shape the UK legal market over the coming 12 months, the vast majority expect their firm will still be an LLP in five years' time. Only 3% expect to be a plc then (all firms with revenues under £100m) – almost as many as see themselves becoming employee-owned over the horizon. Over two-fifths indicate they recognise that alternative models offer opportunities in terms of managing talent.

16 TOP BUSINESS CHALLENGES AND IT INVESTMENT

Talent and aspects of technology are the top challenges in 2023 — with the majority (70%) of leaders at firms with revenues under £100m citing salary competition/employee attrition as a major organisational concern, compared to half of leaders at firms with higher revenues. Meanwhile, cybersecurity seems to be growing as a perceived specific risk, now cited by half of all leaders. There's also a sign of more urgency surrounding client-facing tools, mentioned by 45% (an increase from 20% in 2022). Most say they've increased their spend on technology compared to 2021 levels. Asked to identify high-priority areas for this investment, efficiency matters most (77%), followed by improved collaboration with clients and among teams (48%), and risk management (47%).

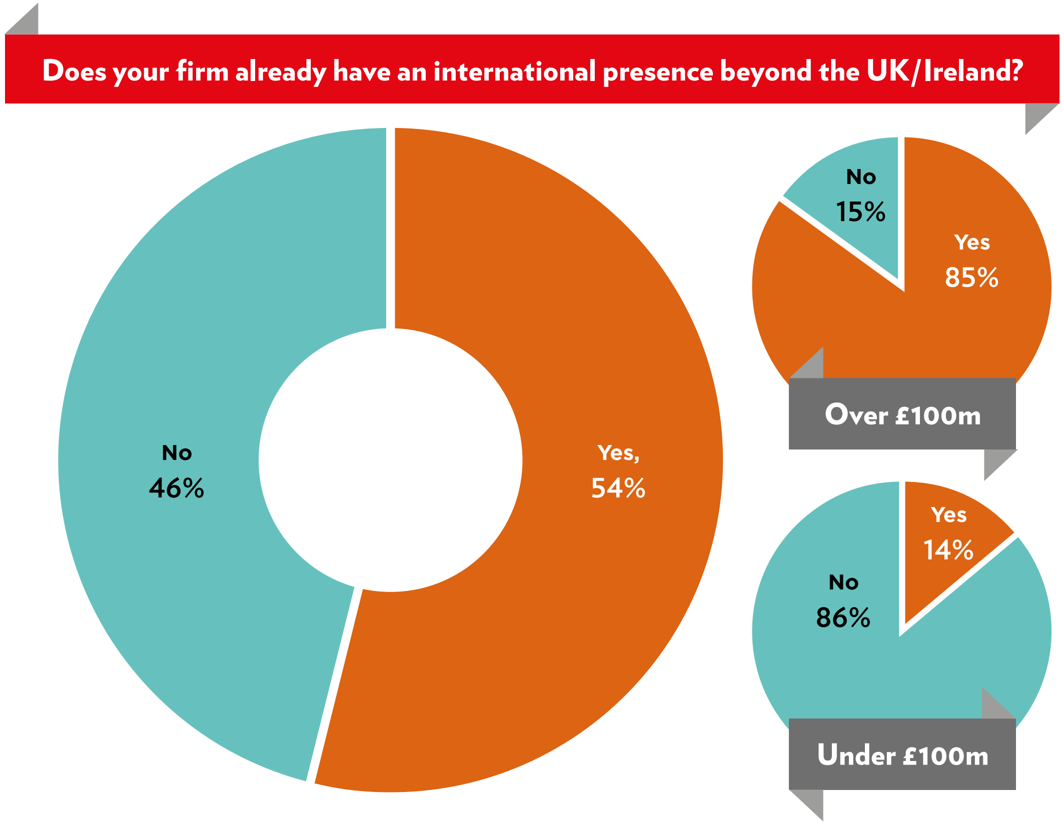
22 TOWARD A MORE SUSTAINABLE AND SOCIALLY RESPONSIBLE FIRM

Work on carbon reduction continues in 2023, as almost half of leaders now report having specific firm-wide KPIs in areas of ESG, compared to 29% in 2022. One-fifth say the plan includes seeking B Corp certification. Investing in reducing the impact of office space/facilities on the environment remains the action firms are most likely to be taking, regardless of their size. This is followed by support for mental health, setting sustainability-linked travel policies, and attempts to achieve greater diversity in the workforce at all levels. Almost one-third of leaders say the firm has a net-zero plan and target – and, with efforts linked to client as well as employee expectations here, one in ten say the firm is now screening clients with respect to their environmental impacts.

01

Law firms show consistent focus on international growth

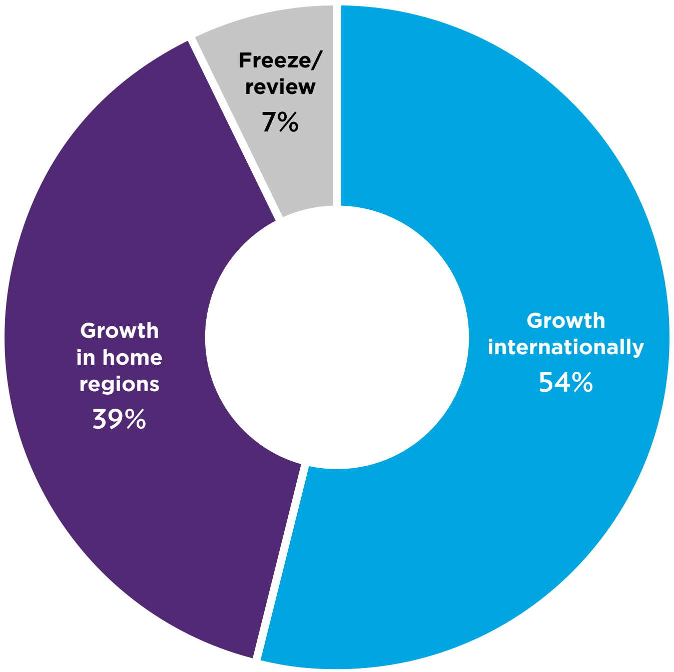
Over half of firms with at least one office outside the UK already will continue to pursue growth overseas in the year ahead — with Europe and Asia the top priorities



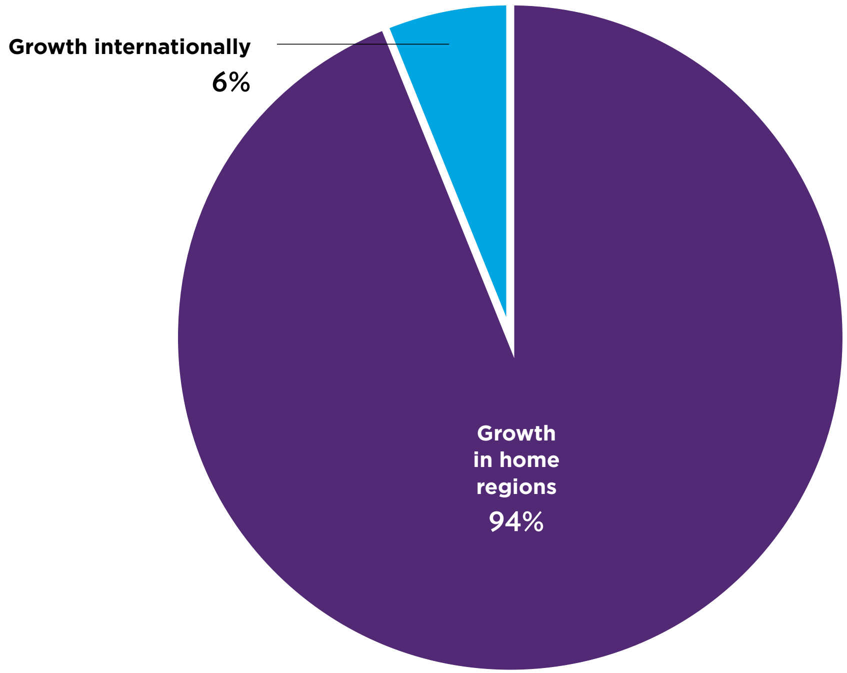
The economic picture in the UK has, if anything, grown more uncertain since the **Briefing**/HSBC Law firm strategy and investment research 2022–2023, carried out between May and July 2022. This year's survey of senior management leaders' positions on many indicators of business challenges and potential change took place following an autumn of political turmoil – and 10 interest rate rises in a row as the Bank of England continued to battle with inflation.

However, a similar proportion of leaders expect

Yes — what is your current geographic growth strategy?



No — what is your current geographic growth strategy?



their firms to continue seeking international growth (p7). Of those already with an international presence beyond the borders of the UK and Ireland (just over half this year), 54% have more international growth in their sights – consistent with responses to the same question in 2021 and 2022. Moreover, just 7% report that such plans are on pause or under review over the next two years – down from 11% in 2022. Most leaders at firms without an international presence today indicate their firms will continue to focus primarily on UK growth (94%), although the small proportion in this group who anticipate embarking on an international strategy in the next 12 months has in fact doubled (from 3% to 6%).

> "It's very likely that some law firms will have identified a need to establish a European presence, for example, specifically to handle international intellectual property work."
>
> **Tim Nash, CEO, Edwin Coe**

Tim Nash, CEO at Edwin Coe, says the business of how firms operate post-Brexit may have had an impact on strategic decision-making connected to expansion in recent years: "It's very likely that some law firms will have identified a need to establish a European presence, for example, specifically to handle international intellectual property work," he says.

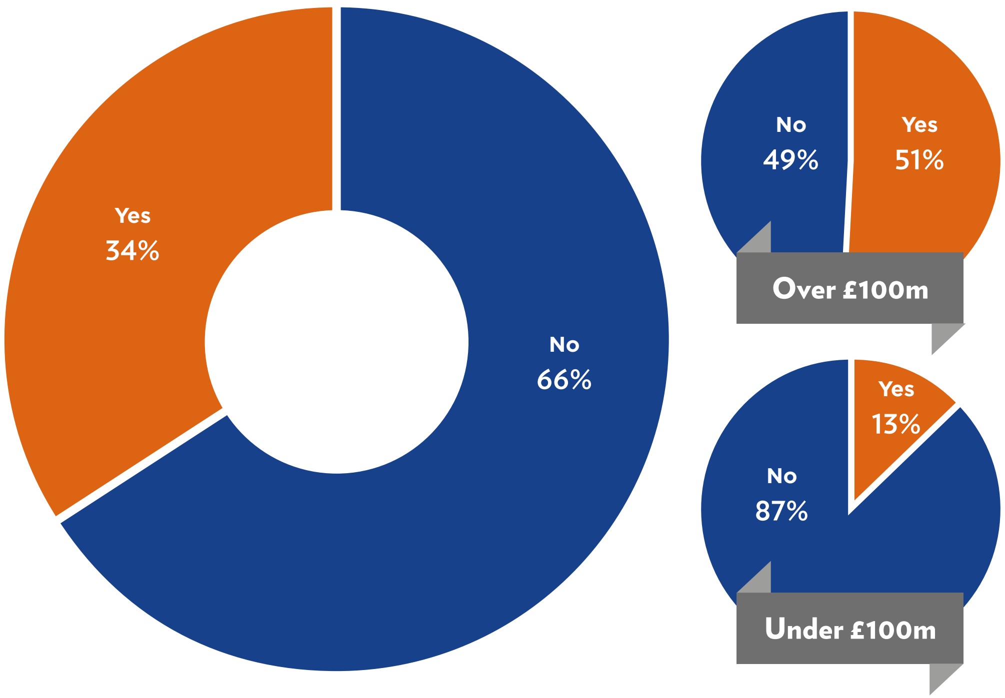
In September 2022, Browne Jacobson opened a first overseas office in Dublin – initially focused on serving technology media and telecoms (TMT) work for domestic and international clients. However, growth purely within the UK continues to be just as much of a priority. In July 2023 it opened a first office in Wales (Cardiff), bringing the overall footprint – including Dublin – to seven. The Welsh government and Natural Resources Wales are two of the firm's longstanding clients.

Managing partner Richard Medd says: "In Wales we're backing the practice and our people – in many cases people based there for some time – to continue our growth. We're clearly also looking to grow business in Ireland."

It's perhaps unsurprising that, after the UK, the top-priority regions for this growth are indeed the rest of Europe (35%), followed by the far east and south-east Asia (31%) and North America (26%). One-quarter of leaders at firms with annual revenues of £100m or more see opportunity in the Middle East – and in the year the Bar Council of India announced that firms could register to set up offices in the country for the first time (foreign lawyers can also continue to fly in and fly out, practising for up to 60 days of a year), 5% of leaders polled pick this destination out as a potential priority (p9).

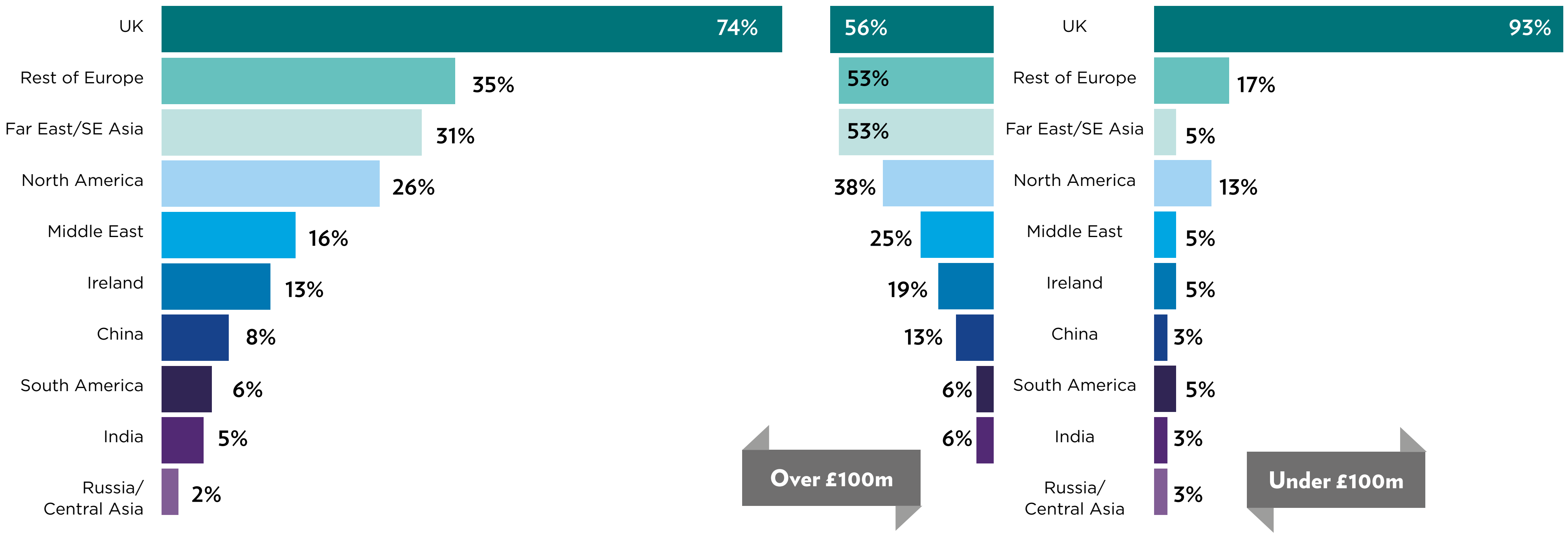
One example of a UK firm launching an international arm for the first time in 2023 is Brodies. Managing partner Nick Scott explained that Abu Dhabi – like Aberdeen – is a key centre in the energy transition. "We have been working with and for clients in the Middle East, including the UAE, Qatar and Oman, for many years now, so this was a very carefully considered, but natural, next step," he said in a press release. "Proximity to our clients is something we believe is important to allow us to provide the best quality legal services and to ensure our lawyers are immersed in the environments in which our clients live and work."

Has your firm considered international growth but identified barriers to pursuing it?



Nevertheless, one-third of leaders report the firm has identified barriers to international growth (above). This increases to more than half of those managing firms with annual revenues of £100m or above. Regardless of plans, the most cited factor affecting such decision-making is the challenge from local competition in a jurisdiction (74%), with almost a third identifying the financing of growth and risk of instability/conflict impacting on operations (p10). Then, one-fifth of leaders report they've had 'other' concerns – ranging from finding

Which countries or regions are you prioritising or focusing on for greatest growth over the next three years?



the right talent and/or work mix in any new location, to navigating client expectations, and of course the economic environment/uncertainty. “A specific subset of market dynamics is navigating high inflation for the first time in decades,” explains one respondent.

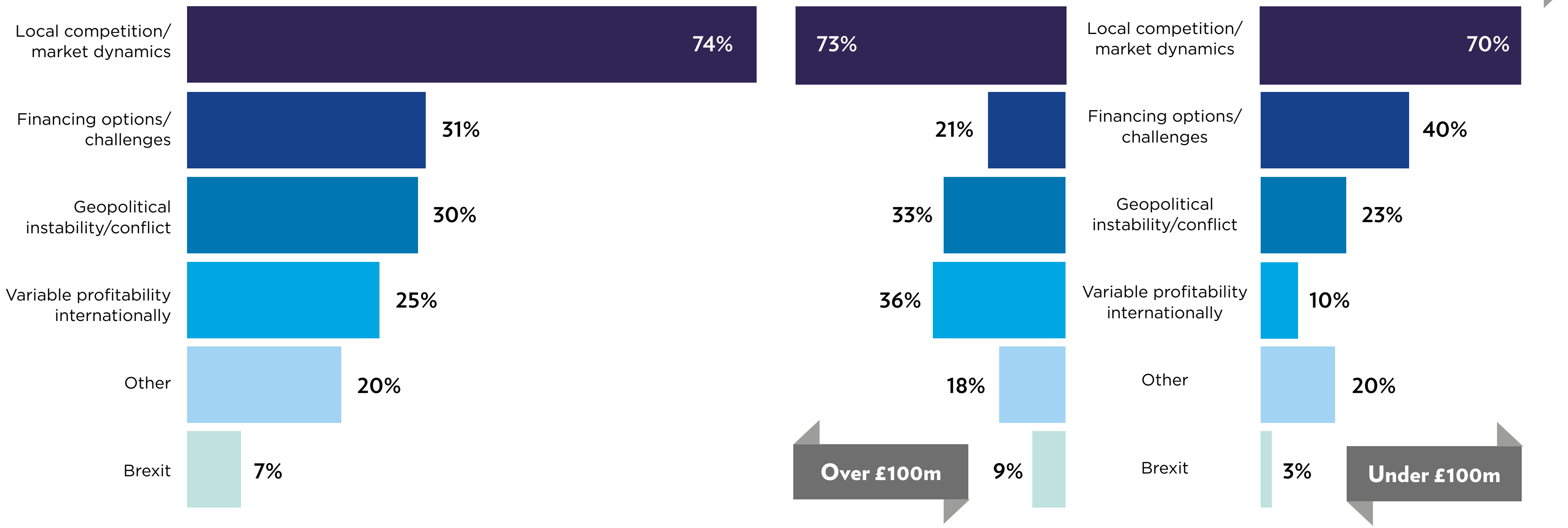
Andrew Edginton, chief operating officer, Gowling WLG (UK), says complex regulatory frameworks can be another barrier for firms that want to move into new markets. “You also need access to the right talent – some partners and teams are highly sought after,” he explains. However, this hasn’t prevented his firm from

> “Growth needs to make sense strategically and financially – considering the investment cost and how soon that may pay back. You need to understand competition in the local market.”
>
> **Steven Rowan, chief financial officer, RPC**

expanding and establishing hubs based on the size of opportunity and local economic growth forecasts – leading to recent priority focus on Germany and the Middle East, for example.

RPC has offices in Singapore and Hong Kong and is a member of the TerraLex and Global Access Lawyers groups, enabling it to serve clients elsewhere through local best-friend arrangements. Chief financial officer Steven Rowan says: “The firm has a team that focuses on international strategy and will look to make sure we are able to service our clients wherever they

Which two factors are most affecting your strategic growth planning and decision-making in 2023?



need us to be. Of course, growth also needs to make sense strategically and financially – considering the investment cost and how soon that may pay back. You need to understand competition in the local market, and geopolitical instability runs close to that. It should be one of the top items on a due-diligence list."

In its results for the year to April 2023, Clyde & Co noted a "year of significant expansion", with new offices in Bangkok, Calgary, Boston and Milan – in addition to five acquired through its merger with BLM. Chief sustainability officer Paddy Linighan says the firm expands either in line with client need, or where it sees an opportunity for new clients that fit its profile. "We're also deliberately hedged sectorally, as well as geographically, to maintain a healthy firm-wide balance that ensures some areas will always benefit," he explains.

Richard Medd continues: "Some may reflect that backing more certain bets seems more attractive during periods of greater uncertainty – as opposed to seeking bigger returns in new jurisdictions – and this is certainly a time of uncertainty."

> "We're deliberately hedged sectorally, as well as geographically, to maintain a healthy firm-wide balance that ensures some areas will always benefit."
>
> **Paddy Linighan, chief sustainability officer, Clyde & Co**

02

Tech and talent development top table of potential business disruptors

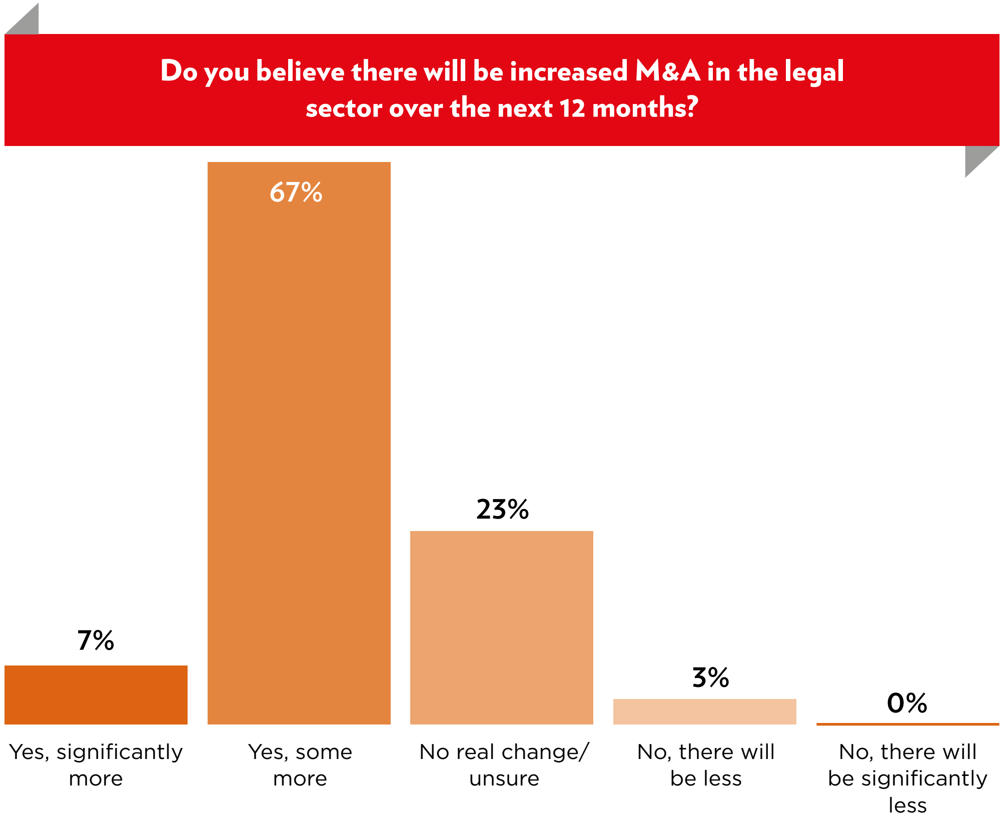
Three-quarters of leaders pick competitor firms with "more tech-driven business models" as a possible source of disruption — and one-third say it's the ESG or wider offer to attract key people that they need to watch

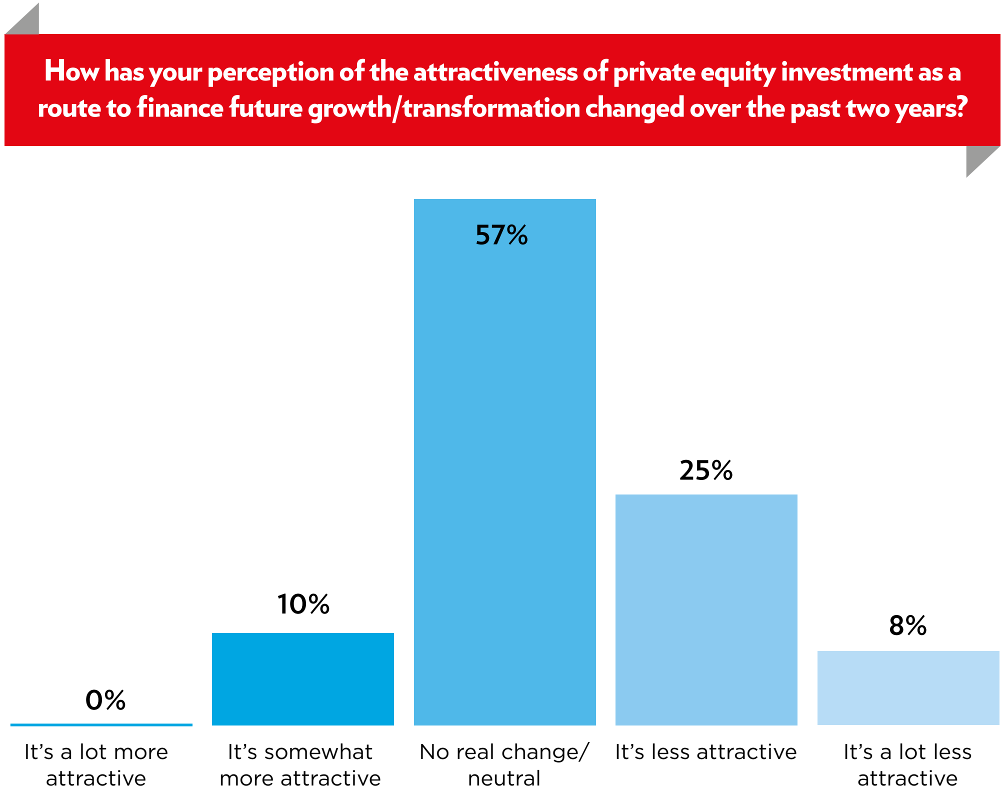
As in 2022, most legal business leaders, across both revenue bands, say they believe the sector will continue to consolidate into 2024 (p12) – and again almost a quarter don't expect significant change (or are unsure). Fewer leaders than in 2022 expect to see a drop in the number of mergers and acquisitions. However, they are also more likely to report that private equity investment is a "less attractive" option than it was in 2021.

Richard Medd at Browne Jacobson says: "Economic conditions may see some more law firms reconsidering strategies and business models, including whether their growth goals are best achieved in partnership with others or by another alternative route.

"We can also see more firms developing a broader professional service offering, potentially bringing more digital strength and introducing new technology in the process."

Sarah Walker-Smith, CEO of Ampa, including the law firm Shakespeare Martineau, adds: "The market forces driving consolidation are the need for ongoing investment to achieve scale and buying power, particularly in such an inflationary market. Clients are also consolidating their panels to an extent. However, expectation of M&A activity is often higher than





the reality. The majority of firms will be in some form of discussion, but very few come to fruition."

At the same time, fewer leaders now believe that their firm is "most likely" to be a plc in five years' time – down from 8% in 2022 to 3% (p13). The LLP model appears to remain by far the most attractive setup for the future (garnering 86% of total responses). This is regardless of a firm's revenue, and there's no change in the number reporting the firm is more likely to be a limited company (9%). A small minority expect their firm to be an employee ownership trust (EOT) by 2028 – a move that would enable their people to indirectly hold shares in the company.

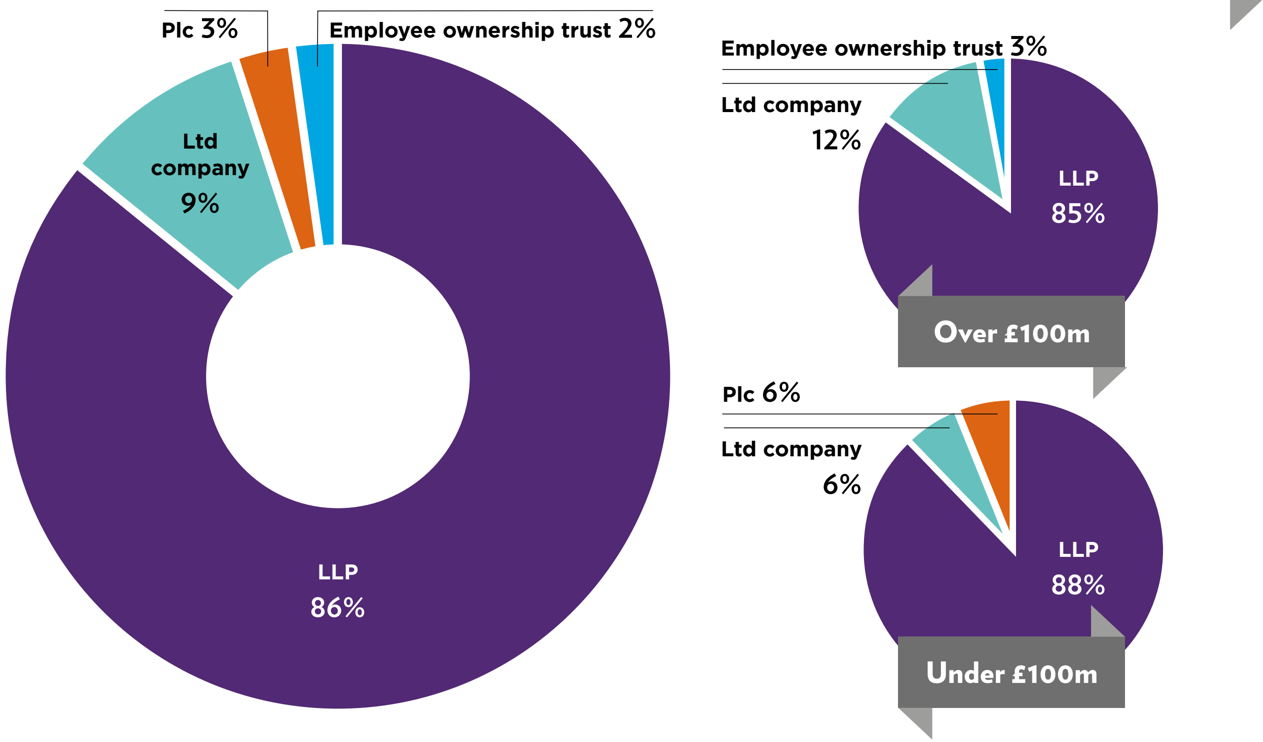
Tim Nash, CEO at Edwin Coe, says: "The ethos of a partnership sharing in the bad and the good times still seems to hold true. The sight of share prices fluctuating – and a few high-profile failures – means many firms will probably be very happy with their LLP arrangements. The alternatives offer some benefits, but also carry some significant costs.

"The employee ownership trust model is intriguing for bringing people in, but it would involve accommodating a lot of change."

Medd adds that taxation changes – discussed later – are having an impact on availability of working capital at professional services partnerships. "Historically, this was likely to be a factor in the choice to become an LLP – but we see broader collaborative benefits in the collegiate partnership model," he says.

While no more leaders than in 2022 anticipate their firms adopting such alternative structures, almost half (43%) agree the most attractive aspect of such a

In five years' time (in 2028), what ownership structures is your firm most likely to have?



course is the opportunity to attract and retain talent with new levers of reward and engagement at your disposal (p14). Talent has consistently topped tables of firms' various management pressure points since the Covid-19 pandemic.

Walker-Smith continues: "Emphasis might shift away from base earnings to more innovative share-based ownership and opportunity with the inflationary market – but I don't see it as a top priority for people at present. Many conversations now centre on cashflow of earnings as much as aggregate reward.

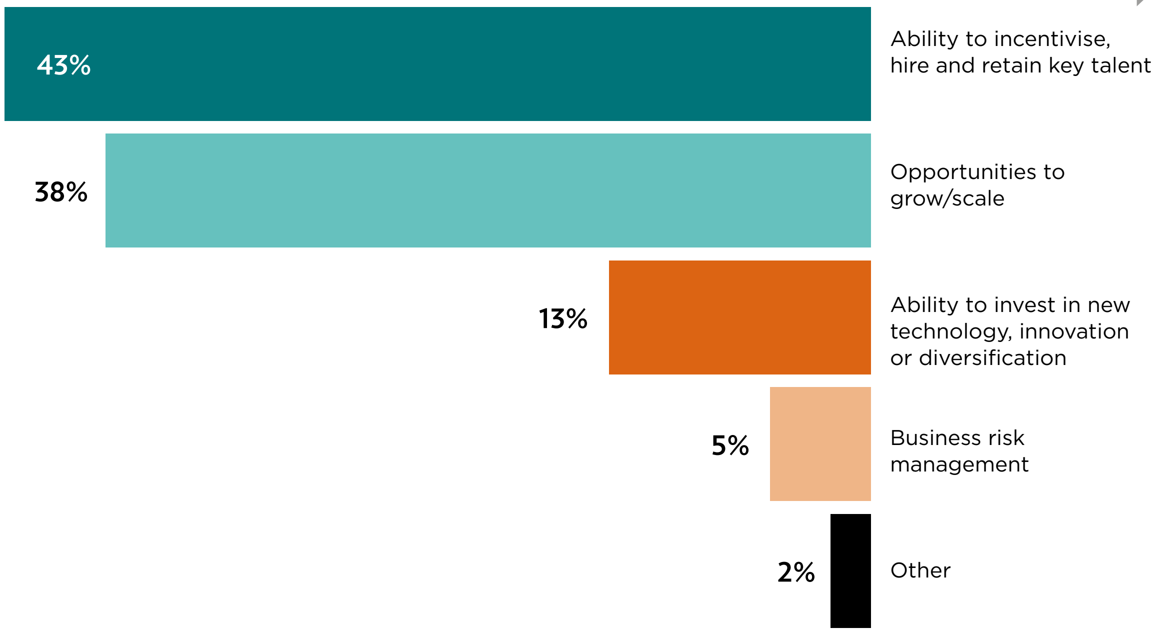
> "The market forces driving consolidation are the need for ongoing investment to achieve scale and buying power. Clients are also consolidating their panels to an extent."
>
> **Sarah Walker-Smith, CEO, Ampa/ Shakespeare Martineau**

A bigger driver of exploring different business models may be the access to funding, as tax changes remove some of the benefits of the traditional partnership."

At the same time, firms are clearly considering the most effective mechnisms for incentivising, rewarding and retaining key people in a highly competitive talent market. There has been increased willingness to modify traditional 'lockstep' models of pay and progression in recent years – Linklaters moved to do so in 2021 – in order to release more reward and promotion propsects for the most exceptional business performance. Since the pandemic, others have explored the range of factors they could tie to often increased bonus pools for performance (in one case establishing a criterion of the number of office or client-based 'collaboration' days expected – albeit with an element of flexibility).

Nevertheless, while one-third of leaders point to other law firms with a more competitive people

Hypothetically, which one of these factors/opportunities would most influence your firm's consideration of any alternative ownership structures?



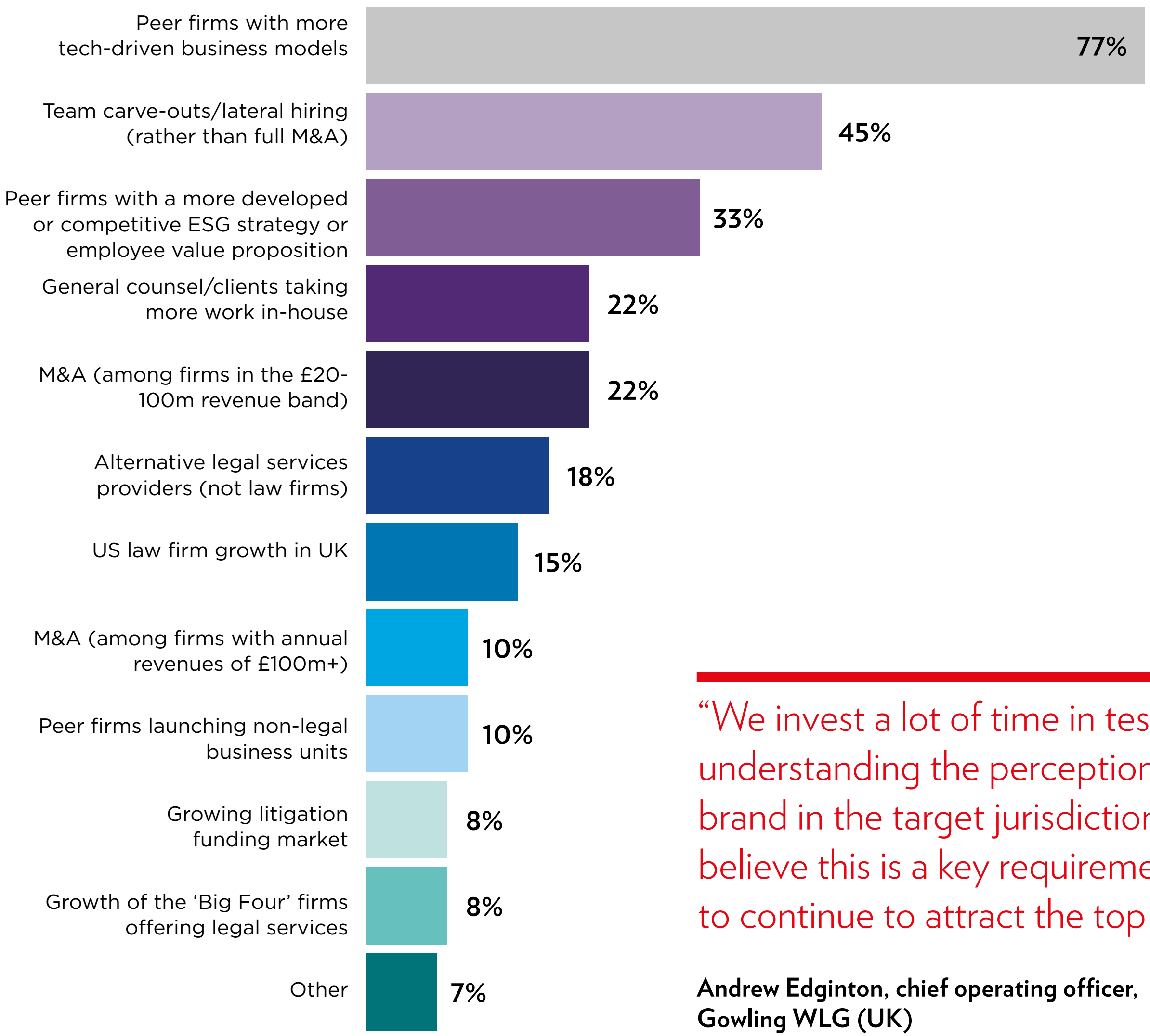
strategy (including on environmental, social and governance (ESG) concerns) as a potential threat to their positions, the most widely recognised disruptive driver continues to be technology (p15). Three-quarters of respondents identify with this idea in 2023, up from 67% in 2022. Lateral hiring of key talent/teams also remains the second most cited source of disruption (45%). Despite making significant investment in the legal market, there's a notable drop in the number of firm leaders who view the Big Four professional services players as a likely source of disruption (8%).

> "The sight of share prices fluctuating – and a few high-profile failures – means many firms will probably be very happy with their LLP arrangements. The alternatives offer some benefits, but also carry some significant costs."
>
> **Tim Nash, CEO, Edwin Coe**

Andrew Edginton at Gowling WLG, says: "When we expand, we invest a lot of time in testing and understanding the perception of our brand in the target jurisdiction – whether that's a matter of building it from scratch in a new location, or ensuring it's positioned appropriately in an existing jurisdiction. We believe this a key requirement if we're to continue to attract the top talent."

A firm's ESG approach is also a factor here, he agrees – and Gowling WLG has released a partner

Which three forces/drivers in the UK legal market do you think present the most potential for disruption at your firm?



> "We invest a lot of time in testing and understanding the perception of our brand in the target jurisdiction. We believe this is a key requirement if we're to continue to attract the top talent."
>
> **Andrew Edgington, chief operating officer, Gowling WLG (UK)**

from fee-earning work to focus on the area internally and externally.

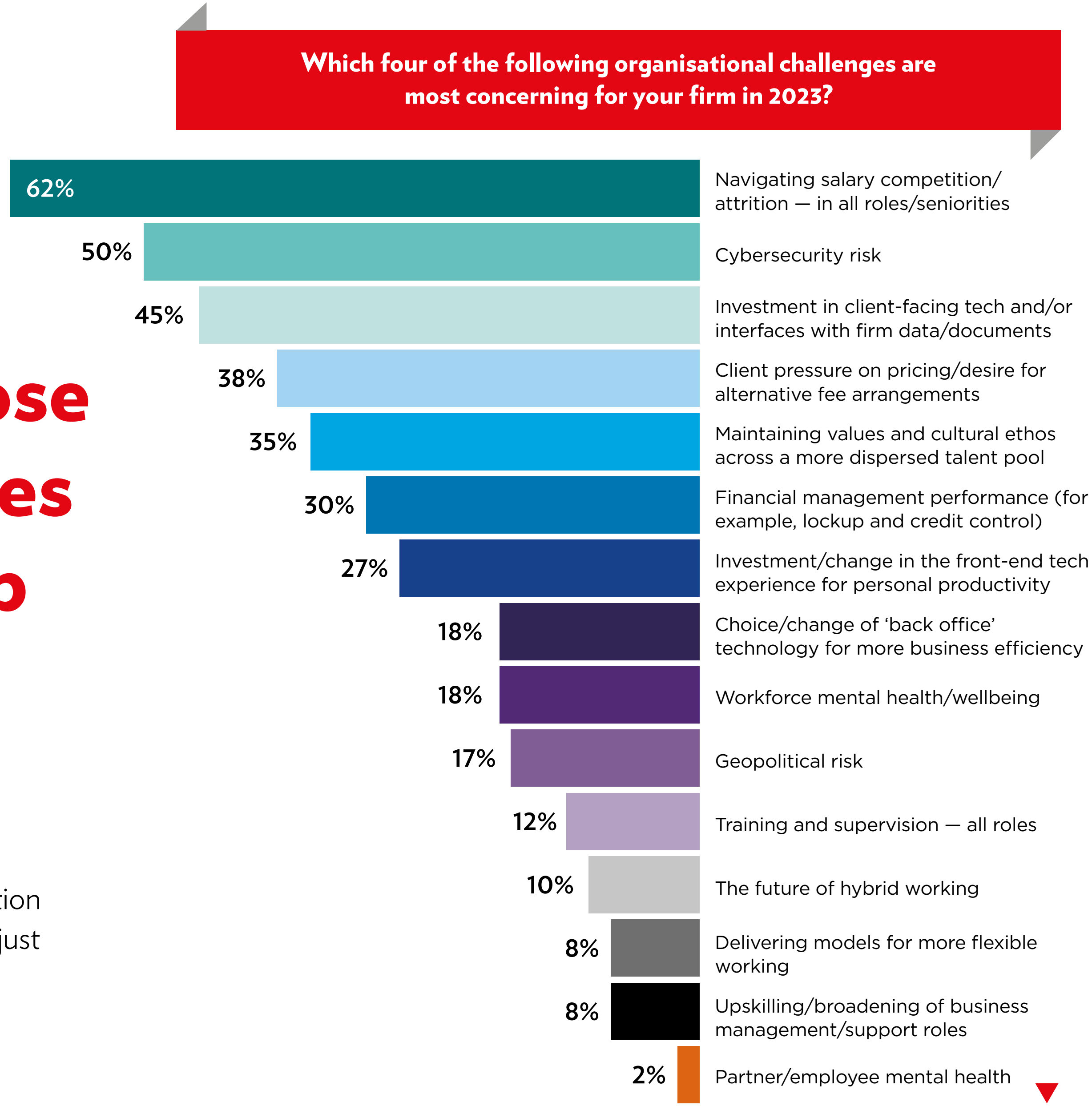
Nash at Edwin Coe adds: "A strategy and a credible story to tell around ESG is an important element in hiring and successful retention today – and more clients are absolutely requiring it as part of the pitch."

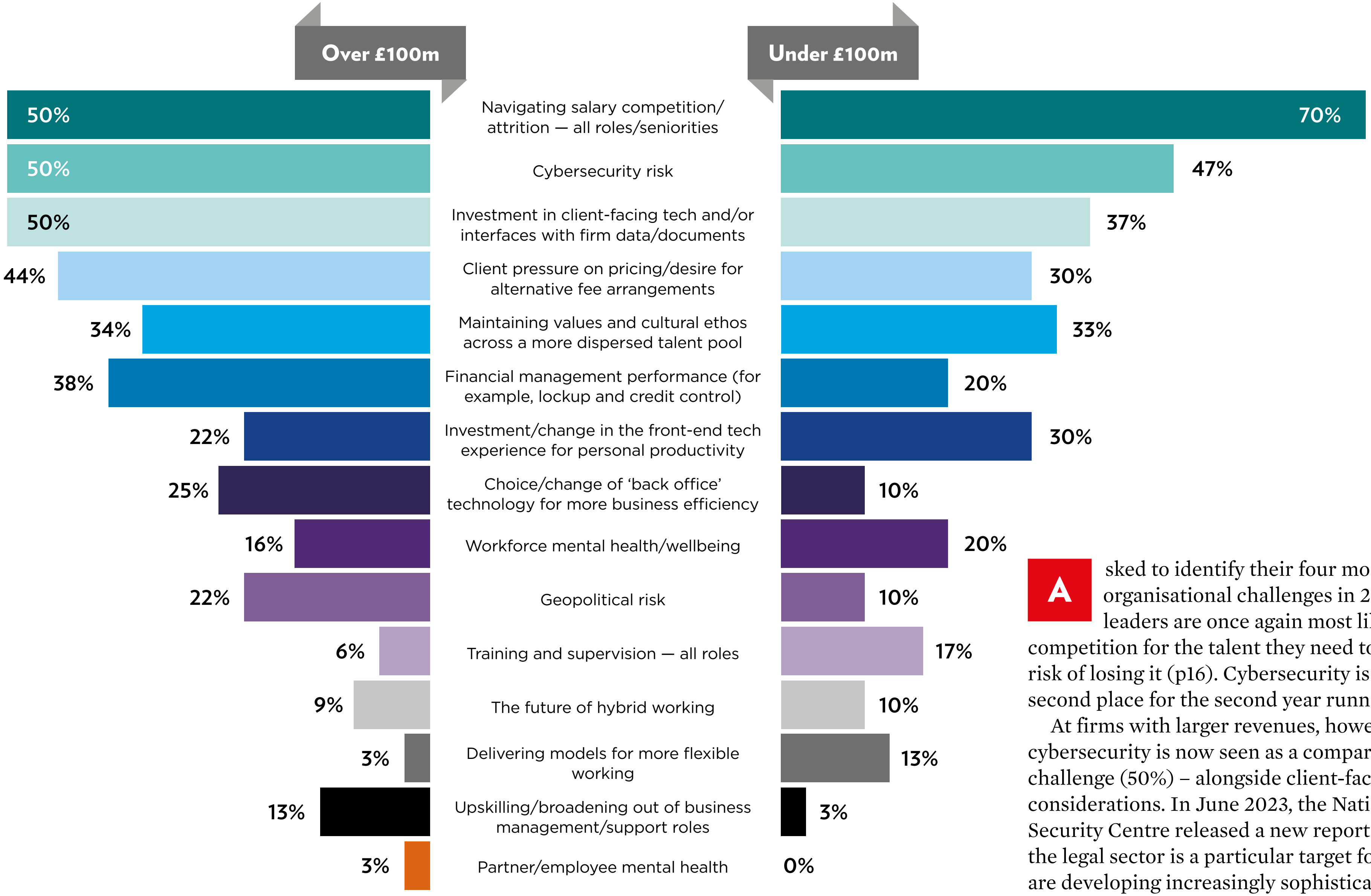
Medd concludes: "It's a true differentiator and tool for addressing some of that pressure on talent in an increasingly values-driven workforce. Firms that walk the walk can now position themselves as more attractive workplaces."

03

Client concerns close in on talent troubles among leadership challenges

Almost half of leaders pick choosing the right technology to support client delivery or collaboration as a top organisational challenge of 2023 — while just one in 10 are still worried about hybrid working

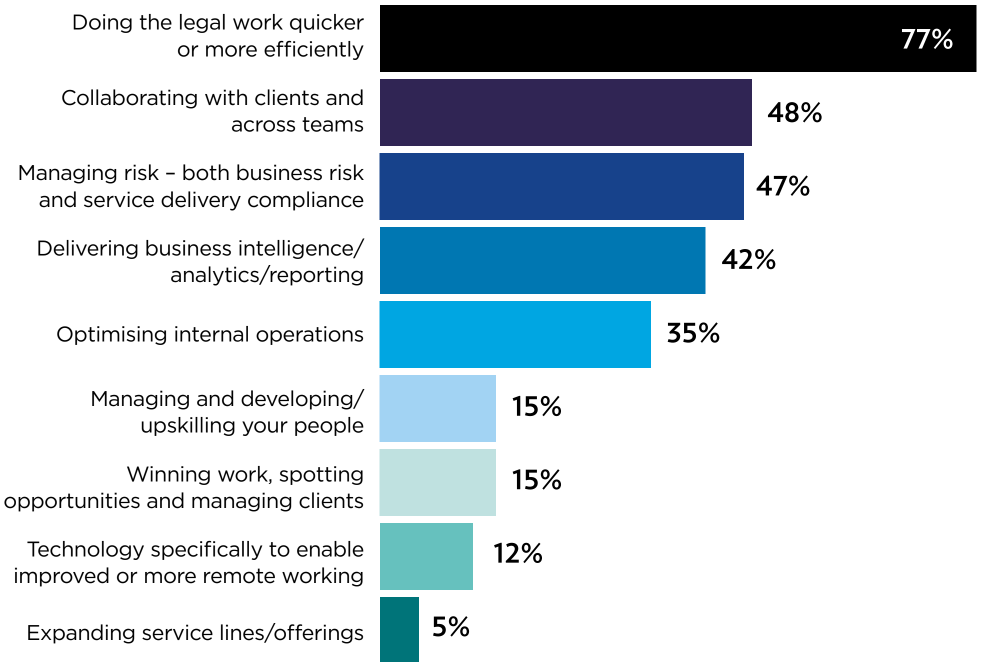




Asked to identify their four most concerning organisational challenges in 2023, business leaders are once again most likely to name competition for the talent they need to thrive and the risk of losing it (p16). Cybersecurity is the challenge in second place for the second year running.

At firms with larger revenues, however, cybersecurity is now seen as a comparably daunting challenge (50%) – alongside client-facing technology considerations. In June 2023, the National Cyber Security Centre released a new report explaining why the legal sector is a particular target for attackers who are developing increasingly sophisticated methods

In which three areas of performance is your firm prioritising investment in new technology over the next two to three years?



5.7%

Average (mean)
Median: 5%

*Average approximate **% of annual revenue strategic leaders at UK-based firms expect to spend on technology** through 2023-2024 (includes spending on infrastructure, solutions/ software and the people/skills to develop and manage it.)*

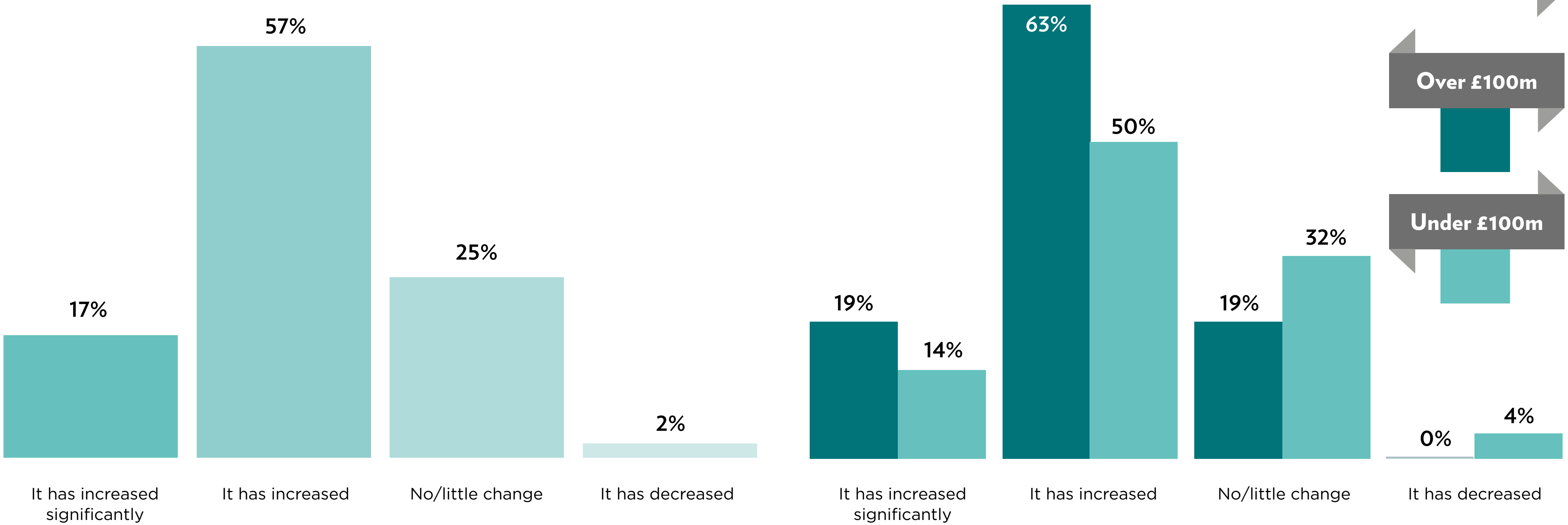
– the combination of highly sensitive client information, significant funds potentially passing through their systems, complex payrolls and transactional time pressures. The report also highlighted the shift to greater remote working since the Covid-19 pandemic, which has both increased the pressure on IT and people management to provide reliable lines of defence and offered new opportunities for experienced attackers.

It's notable, therefore, that "the future of hybrid working" is viewed as less of a challenge than it was – now cited by just 10% of leaders (a drop from 30% in 2022). A similar minority indicate concern with talent's 'training and supervision' (12%) – which is something many have previously described as more challenging to schedule and manage under a hybrid-work arrangement (while also typically offering fewer opportunities for 'osmotic' learning from colleagues sharing a physical workspace). On the other hand, one-third of leaders continue to cite preserving an identifiable organisational culture and common values as a challenge in such an environment (p16).

Richard Medd at Browne Jacobson says: "It may be a different challenge for a single-site law firm, but with seven offices we've had people working together across them for a long time – we've never all been together, all the time. There are local teams and dynamics to consider of course, as well as personal learning and development. Where firms can achieve a critical mass, there seems to be a consensus the hybrid model is the right fit for the future. It's now a question of finding the optimum point within it."

Meanwhile, one significant change for 2023 is the

How has the firm's spend on technology changed compared to its investment throughout 2021?



almost half (45%) who see a need to prioritise more, or improve, investment in client-facing technology, such as for productive collaboration on matters or sharing information – a jump from just one-fifth citing the area in 2022. Taken with the almost two-fifths (38%) who pick out 'client pressure on pricing' as a top concern, economic conditions may be leading firms to realise they must unlock or focus more resource and investment on client experience and communication.

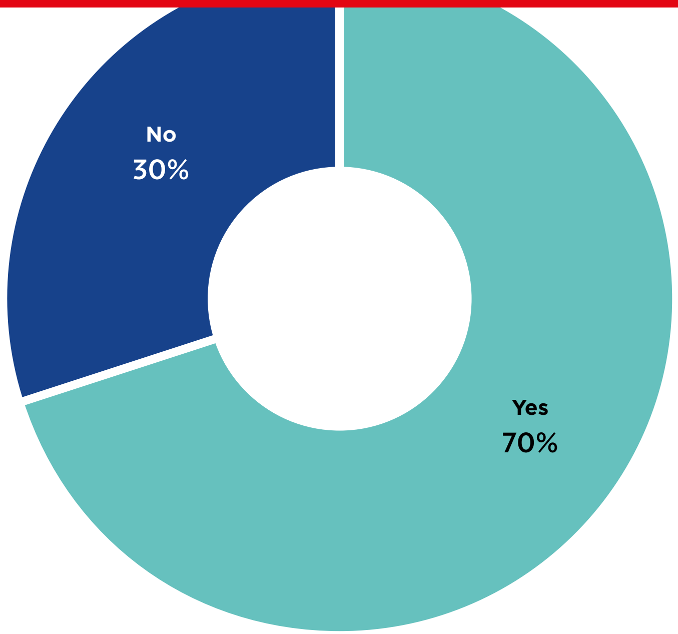
Median estimated spend on all a modern law firm's technology needs as a proportion of annual revenue continues to be 5% – although almost three-quarters (74%) of leaders say this sum has increased compared to two years ago (above). Systems offering to improve business efficiency also continue to be the top destination for this investment (77%), but almost half of leaders see a case for further enhancing their client or internal collaboration and overall risk management – including cybersecurity defences (p18).

Sarah Walker-Smith at Ampa says cybersecurity would top her list. "A robust and secure online platform, with the ability to both share a lot of documentation and also see important metrics 24/7, is a high priority for many clients that are considering the same hybrid-working questions.

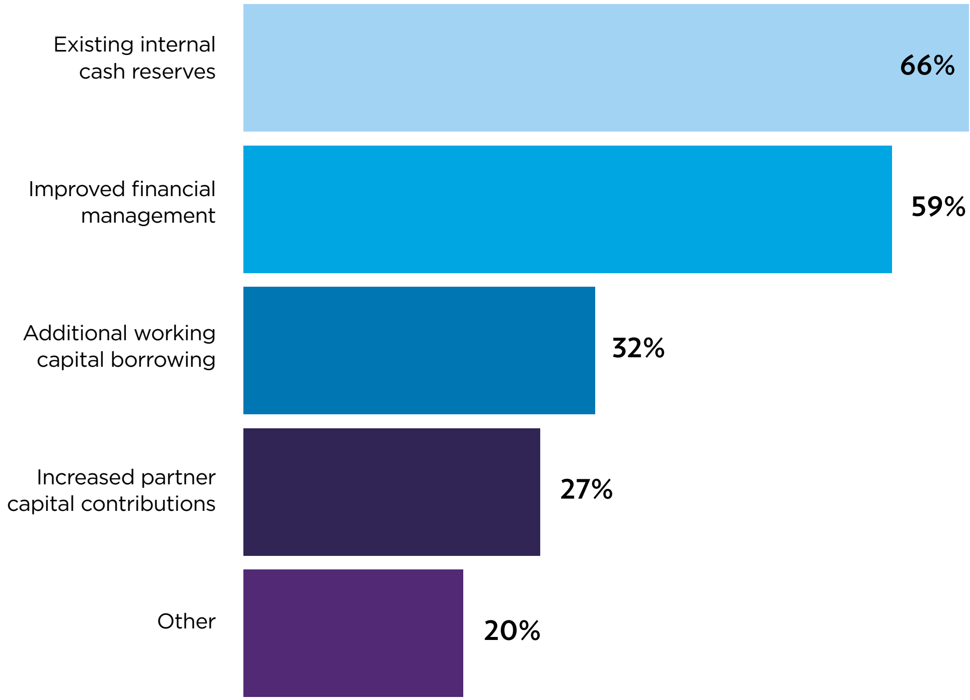
"The focus will now shift to investing more in leadership and people development to support high-performing teams adopting new working models."

Tim Nash at Edwin Coe adds: "It's clear that law firms are having a close look at technology-based solutions to their core business challenges. With salaries and pricing both under pressure, they'll want that salary to be functioning as productively as possible.

Will your firm need to pay significantly higher tax on its profits as a result of the 'transitional year' (2023/2024) to the new basis period?



How is the firm planning to fund this increased tax bill?



"This means eliminating waste – reducing as many admin tasks as possible – and proactive task scheduling and management, as well as focusing on the efficiency of working together, the opportunities for improved collaboration."

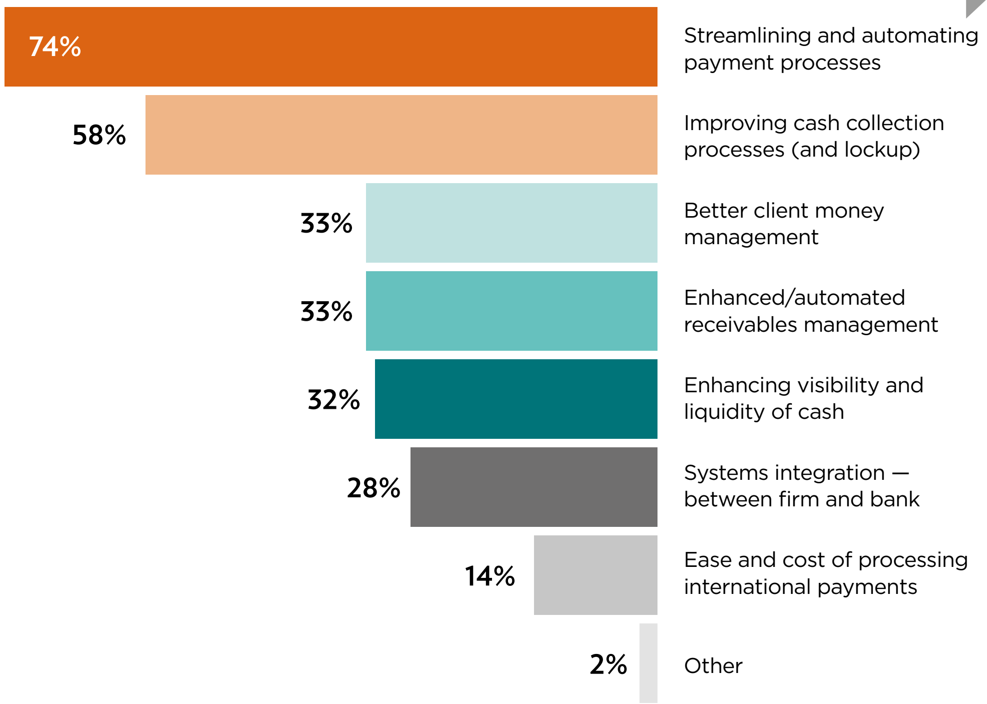
Richard Medd adds that some potential IT solutions and investments also enable change across the boundaries of business impact. "Some systems designed to manage legal workflows can just as easily optimise aspects of internal operations. The latest generative AI could be productively applied to internal policies and processes, for example, as well as preparation of legal advice," he says.

In June 2023, RPC launched a new interactive app providing clients and potential clients with guidance on steps to be taken to navigate a regulatory dawn raid. This added to existing apps giving information on the practical impact of developments in the commercial world and another platform for accountants and tax advisers, says Steven Rowan. "Innovation is a strategic goal for the firm, and it's geared not only to internal efficiency, but also to delivering services more efficiently and interfacing with our clients as much as possible," he explains.

In terms of internally focused transformation, a new area of questioning in the 2023 research concerns the impact of the basis period reforms this tax year on partnerships (above). Several firms have already moved their year-ends to 31 March or 5 April to help administer the switch, but the transition to taxation on a tax-year basis will see others needing to fund additional liabilities – on up to two years of their profits.

Indeed, 70% of leaders say the firm will need to

What are your top three transactional banking priorities?



manage an increased tax bill on its profits – which has the potential to impact on cashflow. Two-thirds of those say they will rely on existing cash reserves, but almost one-third will seek additional borrowing for working capital.

"Many firms will have retained some tax from partner drawings instead of paying everything out and used that for working capital purposes," explains Medd.

Three-fifths also say their firm will attempt to improve its financial management, such as lockup practice, to release additional capital. More generally, the top two transactional banking priorities for law firms of all sizes and arrangements are still the automation/streamlining of their payment processes (74%) and improving that cash collection (58%) – suggesting a healthy focus (or work to do, at least) on optimising cashflow (left).

> "It's clear that law firms are having a close look at technology-based solutions to their core business challenges. With salaries and pricing both under pressure, they'll want that salary to be functioning as productively as possible."
>
> **Tim Nash, CEO, Edwin Coe**

Rowan says: "Modern technology can help where existing systems are particularly old, but financial management improvement is ultimately a basic behavioural matter of processing legal bills faster and getting paid faster."

Andrew Edginton at Gowling WLG adds: "It begins with setting expectations at the beginning of the engagement clearly, then moves to the processes that manage lockup. The overall effect on the firm is likely to be seen through marginal gains over a period of time."

Demand for other potential operational improvements – to receivables liquidity and client money management, for example – is similar across the spread of options, while integration between bank and law firm systems has decreased as a relative priority.

Nash at Edwin Coe says: "With rates rising, there's now an opportunity for firms to earn some significant interest on the client account balance for the first time in a long time. The question is how much they'll need to pay out to clients in lieu of interest on that balance."

04

Environmental and social performance is a growing strategic priority

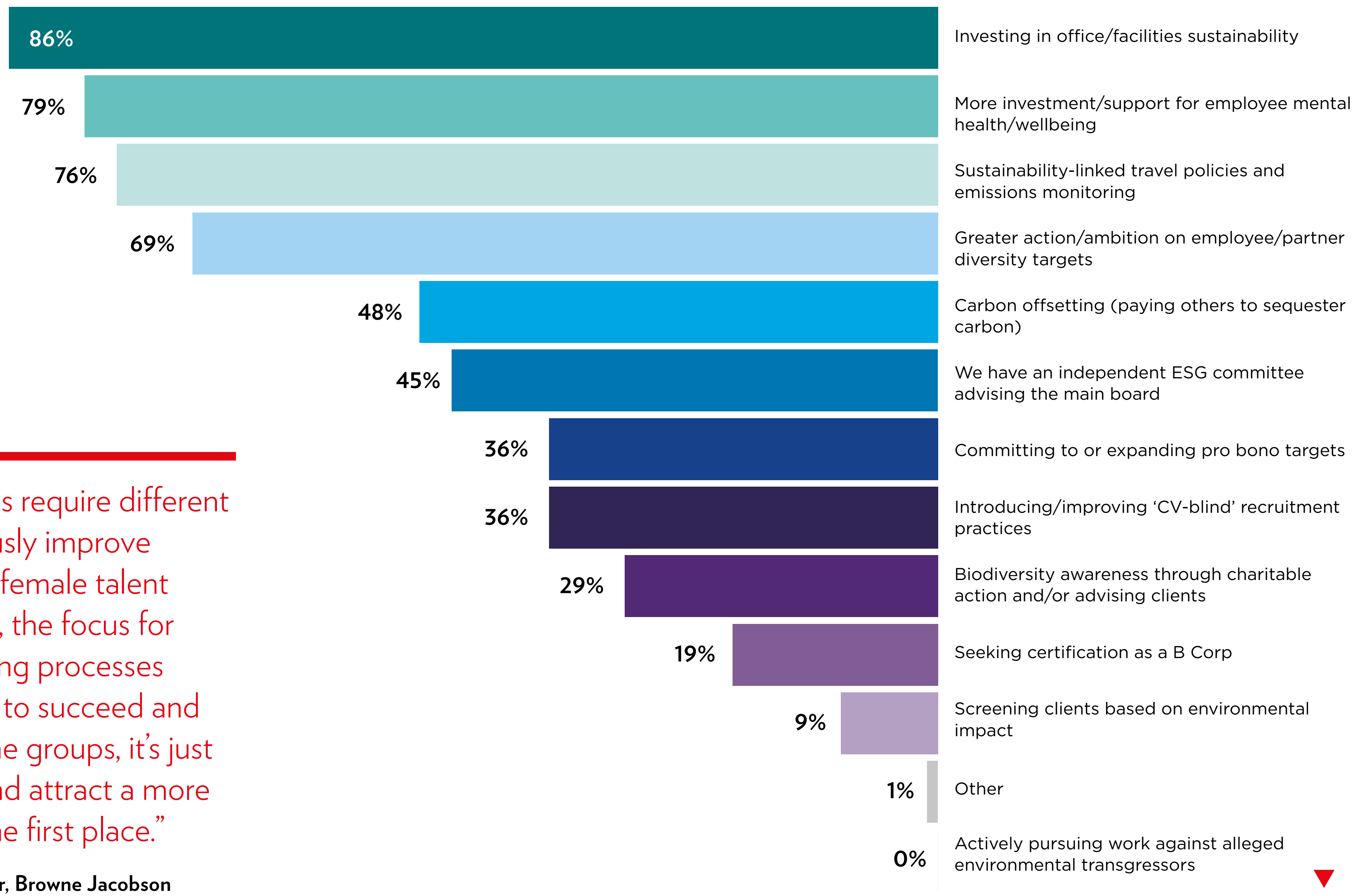
Leaders at almost one-third of law firms with annual revenues over £18m say the business now has a net-zero carbon-reduction target in place

With extreme temperatures making headlines around the world once again in the summer, law firms continue to consider their investments and activity in light of the need to lead on delivering 'responsible business' – implementing a wide range of actions in the orbit of environmental, social and governance (ESG) pressures.

Clearly connected to the talent proposition, 86% of leaders in 2023 cite the energy efficiency and overall sustainability of their premises and facilities (p23), 76% are monitoring their carbon emissions and developing policies linked to sustainability, and over two-thirds (69%) say they're doing more to improve workforce diversity in the business (perhaps through 'CV-blind' interviewing in some cases – cited by 36%).

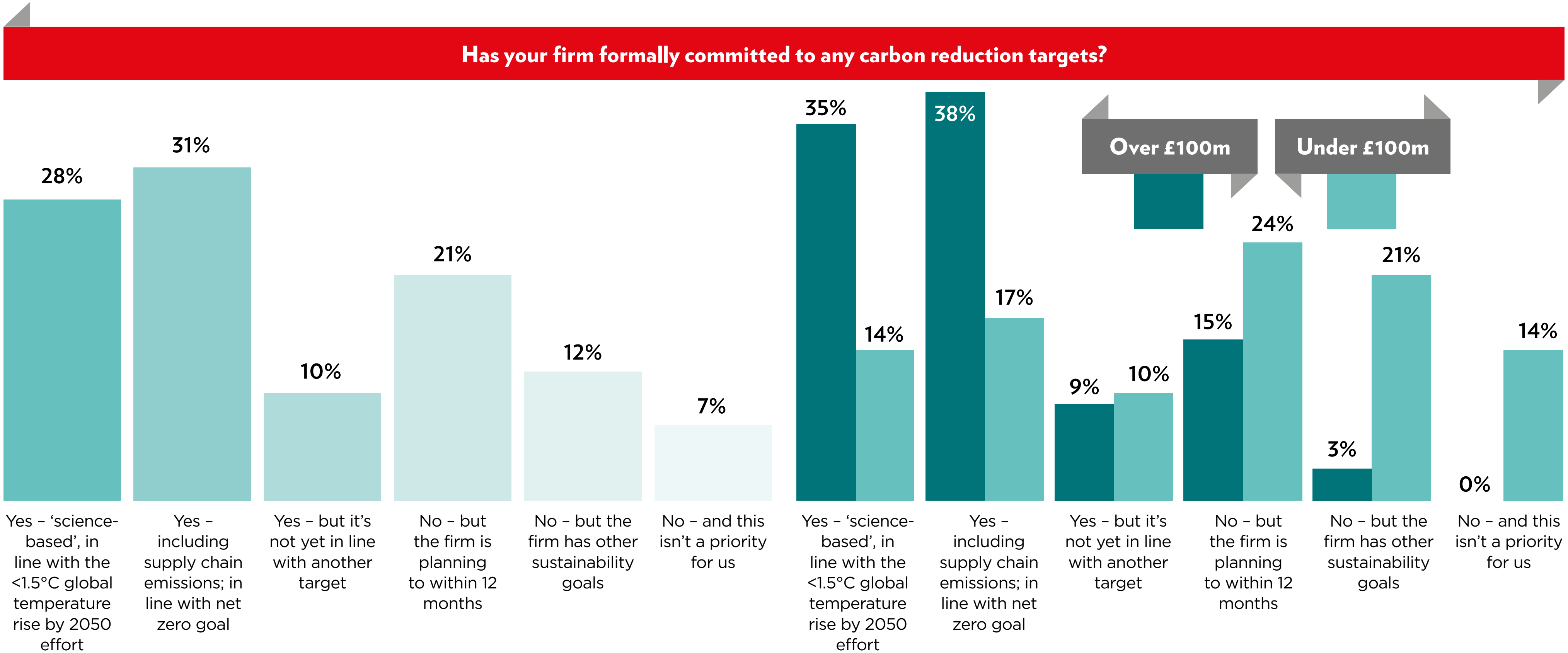
In December 2022, Browne Jacobson retained

Which of these actions is your firm taking in 2023 to move the dial on ESG objectives or performance?



> "Different communities require different initiatives to continuously improve diversity. With a lot of female talent in the business already, the focus for improvement is ensuring processes are right for this talent to succeed and reach the top. For some groups, it's just as important to find and attract a more diverse workforce in the first place."

Richard Medd, managing partner, Browne Jacobson



its leading position in the cross-sector Social Mobility Employer Index drawn up by the Social Mobility Foundation. This recognised efforts such as targeting all its outreach work at non-selective schools and launching a mentoring scheme specifically for under-represented black lawyers. Like many firms, it also has some diversity goals for those in senior positions – a minimum of 50% female and 12% UK ethnic minority partners by 2026.

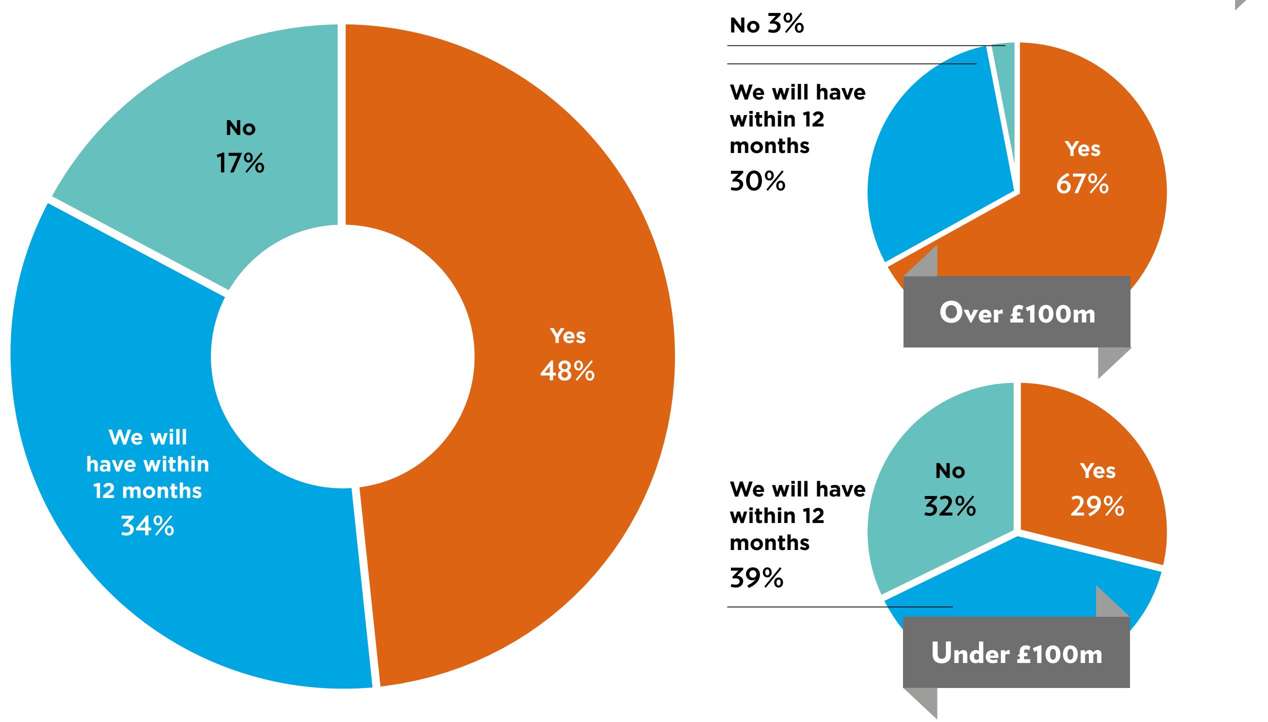
Managing partner Richard Medd explains: “Looking for untapped talent in new places has really given us an advantage as a business at the same time – it’s a positive for everyone involved.

“Different communities require different initiatives to continuously improve diversity. With a lot of female talent in the business already, for example, the focus for improvement is ensuring processes are right for this talent to succeed and reach the top. For some groups, it’s just as important to find and attract a more diverse workforce in the first place.”

Although mental health/wellbeing did not emerge as one of the most daunting organisational

> “We have quarterly responsible business targets connected to both business and commercial strategy, which are inextricably linked.”
>
> **Sarah Walker-Smith, CEO, Ampa/ Shakespeare Martineau**

Does the firm have any specific firm-wide KPIs for ESG progress in place?



challenges for leaders at all firms (p16) – eclipsed by concerns about choosing the right technology, financial management and clients – 79% say their firm is also doing more to support people on this front.

Less commonly, almost one in ten respondents say their firm is screening prospective clients through a sustainability lens – and one-fifth are seeking certification as a B Corp – that is, getting verified as meeting certain standards of social and environmental performance, transparency and accountability.

Alive to the potential impact of ESG-focused initiatives and commitments on both talent and client engagement, Tim Nash, CEO at Edwin Coe, says: "It would not be a surprise to see more law firms attaining B Corp status over the coming years. Many are already active in most of the main B Corp areas of focus – environment, community, workers and customers. It's a good vehicle for recognising the holistic range of ESG efforts firms can undertake as a business."

The Ampa group of businesses is also a B Corp – the largest of the professional services variety in the world to date. CEO Sarah Walker-Smith says: "The standard is not easy to maintain, with a robust three-year assessment to continually raise the bar. But accreditation is ultimately a method for holding ourselves to account. We have quarterly responsible business targets connected to both business and commercial strategy, which are inextricably linked."

Paddy Linighan at Clyde & Co adds: "There's increasing pressure on some organisations to show that their plans for transition to a low-carbon economy are truly credible." That in turn means a "window of uncertainty" for the law firms advising them, he says.

In 2021, Clyde & Co was a founding member of the Net Zero Lawyers Alliance – committing them, among other things, to helping clients align activities with their net-zero ambitions. Another challenge, however, is navigating sometimes divergent positions on sustainability in different jurisdictions.

We also see a steady increase in the number of firms committing to a formal carbon-reduction target of their own (p24) – almost one-third (31%) of all firms now working to a net-zero target as part of their plans, according to leaders. There's a notable jump in the number of leaders at firms with smaller revenues saying the firm has already committed to either a 'science-based' or a net-zero target. Around half as many as in 2022 now say the firm is only "planning" to do this.

Linighan adds: "Corporates now need to meet disclosure requirements, and this is clearly being passed along the supply chain – law firms need to push change down through their supply chains as well."

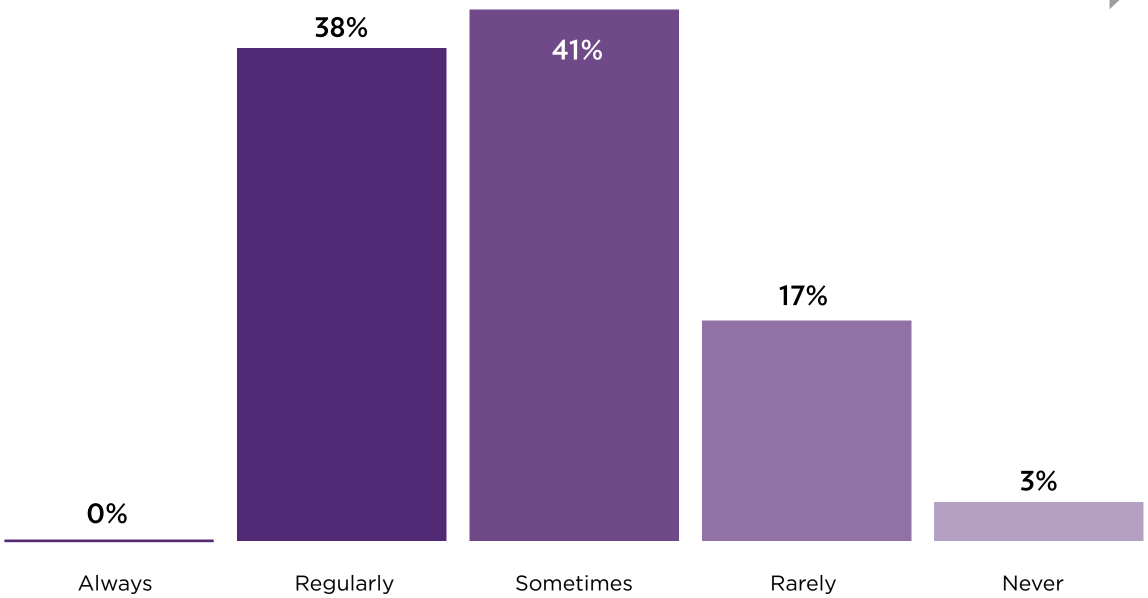
Likewise, more firms in both revenue bands now have some firm-wide key performance indicators to assess progress on their chosen ESG paths – for diversity and fair pay, for example, as well as carbon-related measures like energy use and waste management (p25).

Among the firms with revenues of £100m or above, two-thirds now have some in place – an increase from 47% in 2022 – and only 3% of leaders admit they don't even have them in the pipeline. Among firms with revenues of less than £100m, over a quarter (29%) now have at least some measurements – an increase from 16% in 2022.

These internal metrics of progress can also overlap with client expectations of how their partner firms invest and resource work – some more stringent than others – and they can be robustly challenged. It's clear that firms' clients seeking more information or assurance is a significant driver of change (above). Only one-fifth of strategic leaders say the firm "never" or "rarely" experiences clients assessing its sustainability-focused decisions – the same proportion as in 2022.

Gowling WLG has established a new ESG group with representation from lawyer and other roles

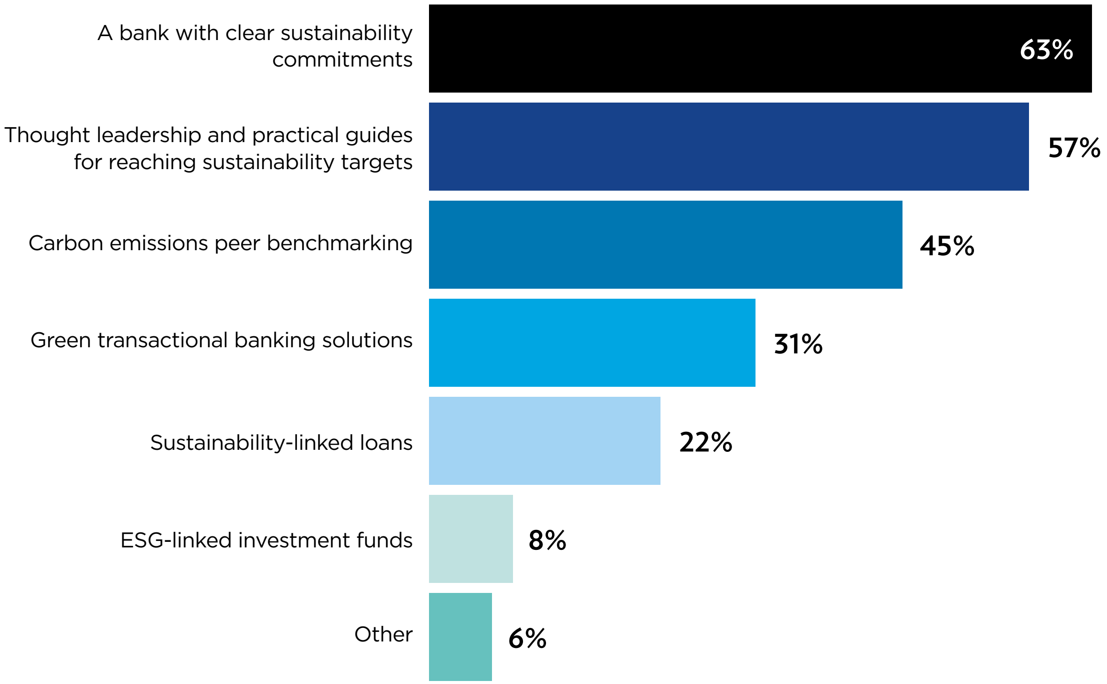
To what extent are the firm's clients assessing environmental policies and targets when deciding whether to work with you?



"Corporates now need to meet disclosure requirements, and this is clearly being passed along the supply chain – law firms need to push change through their supply chains as well."

Paddy Linighan, chief sustainability officer, Clyde & Co

Which sustainability advice and solutions do you need from your bank?



Please contact HSBC:

Victoria Ritchie
Head of professional and business services
HSBC UK
M +44 (0) 7387 244210
victoria.j.ritchie@hsbc.com

across the business, and a non-executive director on board. Andrew Edginton says: “The remit is broad, to test our initiatives and targets, and the group has the opportunity to challenge business decisions – from launching a new product through to replacing our laptop estate – from an ESG perspective.”

He says focus has now rightly moved from offsetting carbon footprint to reduction and eventual elimination, and the firm has decided to work with an external business to assess and rate its performance for sustainability annually.

“The remit is broad, to test our initiatives and targets, and the group has the opportunity to challenge business decisions … from an ESG perspective.”

Andrew Edginton, chief operating officer, Gowling WLG (UK)

A growing number of leaders say they value support from a banking partner in meeting the goals they’ve set here – both advice-related and via sustainability-linked financial products (above).

As more establish targets for themselves, almost half (45%) now see value in benchmarking carbon-reduction efforts against peer firms to understand progress – with growing interest in more environmentally-friendly transactional banking solutions (31%) and also sustainability-linked loans (22%).

"The legal sector continues to demonstrate exceptional resilience in increasingly challenging times. Beyond navigating the uncertain macroeconomic landscape ahead, law firms face pressures to attract and retain the best talent, develop tech-enabled business models and manage regulatory changes that require strategic decision-making and leadership. In a world where sustainability must be prioritised, our clients are rightly placing focus on their sustainability agendas from both an environmental and a people perspective. We're confident that law firms are well positioned to seize opportunities for sustainable growth and perform successfully over the coming years despite stronger headwinds."

Stuart Tait
Head of Commercial Banking
HSBC UK

HSBC UK