Law firm strategy and investment survey

2024/2025

FIRMS FIND THE STRENGTHS TO GROW

Legal businesses across the market are confident about their prospects approaching the middle of the decade, but know they must invest in the foundations for new delivery models to flourish


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Leaders gear up to score big growth goals

Welcome to **HSBC UK**'s law firm strategy and investment research for 2024/2025. This is the fifth year we've surveyed strategic leaders across the UK legal market about their operational and organisational priorities and challenges, and it means we're able to track many key trends in how firms approach their transformation and innovation decision-making. HSBC UK is pleased to partner with the legal business management publication **Briefing** again to build this picture, and a sincere thank you to all who took time to give us the view from their firms. We hit a new high of 95 responses this year, all from senior management leaders such as managing partners, CEOs and finance leaders at firms with a presence in the UK and annual revenue of at least £18m.

We conducted an online survey between May and early August 2024, posing questions about perceived opportunities/challenges with domestic and international growth; preferred strategies and business structures, including mergers, acquisitions and appetite for private equity or litigation funding; the most concerning sources of competitive and organisational risk; focus on technology change, alternative fee structures and other operational improvements, such as controlling cashflow and reducing lockup; and the commitment to driving change that comes under the banner of environmental, social and governance (ESG) action.

The findings are all clearly laid out over the following pages, preceded by a useful executive summary to give the bird's-eye view of this landscape. In many places we can see how leaders of firms in four different revenue bandings feel about the opportunities, challenges and risks. We've also interviewed a wide range from across the market for added perspective.

There's much to consider, but perhaps most encouraging is the very high proportion of leaders at firms of all sizes signalling confidence in the market/outlook overall as we approach the middle of an extraordinarily challenging decade — whether seeking growth in new and innovative directions, or content to develop their particular specialist corner. Some questions associated with the Covid-19 pandemic years — such as how best to handle a world of flexible hybrid-work for the whole workforce — may still not be fully settled. However, these leaders' responses suggest their firms are determined to forge ahead, apparently investing larger sums in technology-based transformation — perhaps finding more parts for artificial intelligence to play in the production of certain tasks — and increasingly likely to set targets and be accountable for business environmental sustainability and social responsibility.

In order to keep investing at the right strategic points for the next phase of growth — for clients, their people, productivity gains or profitability — they must of course also maintain firm focus on the foundations of strong financial management to support a healthy cashflow.

VICTORIA RITCHIE
HEAD OF PROFESSIONAL AND BUSINESS SERVICES
HSBC UK

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Law firm strategy and investment 24/25: Executive summary

Senior law firm strategy leaders give views of the changing opportunities and challenges in the market — covering strategic growth journeys and decisions, investment plans and priorities, and the actions needed to embrace sustainable business

➤ FIRMS IN 2024 FEEL CONFIDENT TO GROW

Strategic law firm leaders are more bullish about their growth prospects in 2024 than in 2023 — 84% of those already with some international footprint are planning for further expansion, the majority clearly firms with larger revenues (over the £100m mark). As in 2023, no respondents indicate a firm has plans for a smaller international presence, although one in 10 is in a period of reviewing the options (compared to 7% in 2023). Among firms that currently only have formal offices in the UK or Ireland, the proportion of leaders saying they're pursuing international growth has doubled — from 6% to 13%. Across the board, the top priorities for any growth continue to be the UK (92%) and elsewhere in Europe (47%), with signs of slightly less focus on Asian markets but consistent interest from a minority in shifting business opportunities in China and India (p9). As in 2023, just over a third (35%) of leaders say the firm has experienced barriers to international growth goals (p8), and securing talent is the challenge most identify (59%), particularly so those with revenues under £100m (p10). Even with inflation falling and a change in government, over a third (37%) of all leaders view the macroeconomic situation as a challenge — but specifically securing the finance for growth appears to be less of a problem in 2024 (12%). Overall, 84% of leaders at firms of all sizes are 'confident' in prospects for the year ahead, although those running smaller firms are twice as likely to be 50/50 on the point.

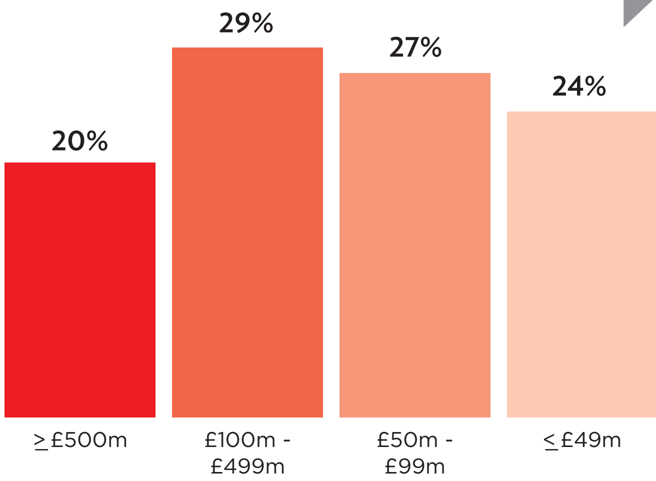
84%
of law firm leaders are confident in the outlook for the next 12 months

➤ FIRMS LOOK TO LATERALS AND MERGERS TO BUILD MOMENTUM

In terms of growth strategy, firms of all sizes are most likely to be targeting strategic lateral hires (p13) — either in their existing fields/areas (92%) or new ones (66%). In addition, firms with revenues under £100m in particular are exploring routes through new or changing client/business sectors (40%) — but only 16% plan to extend their practice group mix. In one sign of a consolidating market, almost half (49%) say their firms are also pursuing merger or acquisition in 2024-2025 — 30% of firms with revenues less than £100m. However, just 8% are seeking private equity backing. Twice as many leaders as in

49%
of leaders expect a merger or acquisition in the firm's growth journey

% of leader respondents within annual-revenue bandings



2023 believe there will be "significantly more" M&A in the legal market over the next 12 months (17%), with 17% also saying they're more attracted to the idea of private equity than they were in 2022 (p15). Meanwhile, almost a third (31%) find the idea of litigation funding to manage some of their large cases more appealing. Leaders are most likely to believe their firm will be a limited liability partnership (LLP) come the year 2030 (89%), although twice as many, mostly smaller-revenue firms, expect to be a shareholder in a limited company as did in 2023 (p16). There is still minority interest in the idea of a public listing (6%), although the same proportion of leaders at smaller firms see value in the transition to an employee ownership trust.

FIRMS INCREASE IT SPEND, OPEN TO AI

As in 2023, the factor most leaders can see disrupting their firm's plans is the competitive threat posed by others that have invested in "more tech-driven business models" (77%). A steady 41% continue to indicate concern about the impact of other firms' lateral-hiring plans, and a third now cite the idea of clients handling more work in-house — up from a fifth in 2023 (p17). A fifth of leaders at larger firms also see disruptive potential in the growth of USA-headquartered firms, although peers with more advanced people/ESG strategies are viewed as less of a threat (15%). Asked to prioritise internal organisational challenges, most now identify cybersecurity risk (58%), closely followed by recruitment/retention at all levels in a world where competitors are often offering higher salaries (56%). As in 2023, the third and fourth most common challenges are client pressure to adapt prices or fees, and ensuring investment in the right client-facing solutions (particularly concerning to smaller firms).

Indeed, we see a small but significant increase in the average sum leaders expect to spend on IT systems and skills over the next 12 months (as a percentage of their annual revenue) — reaching 6%. Over a fifth (21%), say that this sum has 'increased significantly' (p20) — with smaller firms most likely to be spending more to improve their efficiency or effectiveness. Some of this investment may well be destined for the year's hot topic of technology that involves generative artificial intelligence (p21) — something which, despite acknowledging several challenges/concerns, over half (57%) can envisage used in the production of legal work, such as client advice, by 2025. Among other operational priorities, 79% say they are focused on improving cash collection/lockup positions — an increase from 58% in 2023 (p24).

82%
of leaders say the firm has increased its spend on technology in 2024

MORE FIRMS EMBED ESG TARGETS TO PROGRESS

Signs firms are continuing to invest in their environmental, social and governance (ESG) strategies or requirements include that more than half (53%) now have an independent ESG committee to advise their main board(s). A fifth also say they will 'screen' clients for environmental impacts and 6% pursue work against "alleged environmental transgressors" (p28). The action most likely to be taken, however, is investment in a package of support for people's mental health/wellbeing (92%) — while 82% say they are taking action to improve ambition or performance regarding workforce diversity. Fewer are now carbon offsetting as part of their reduction strategies (39%), and there are increases in the number with both Net Zero target years (43%) and those validated by the Science Based Targets Initiative (38%). Three-fifths (61%) of leaders also say the firm now has at least some key performance indicators for ESG-focused progress in place (p30) — and these are spread across the revenue bandings.

53%
of leaders say the firm has an independent ESG committee

01

Firms confident of future growth — but find talent is the top challenge

Over four-fifths of strategic leaders say they're confident in the market approaching 2025, but sourcing talent remains the number-one challenge to realising growth potential

The macro background to the HSBC UK/**Briefing** law firm strategy and investment research in 2024 is very different to the picture that may have informed responses over a year ago — inflation in the UK returning to target, a first quarter-point reduction in the base rate from the Bank of England, and a new government installed for the next five years. There is, of course, also the perhaps unprecedented runway to a US election in November — one of numerous around the world this year — and the terrible surge of instability in the Middle East. One fast-moving constant over the period has been the war in Ukraine.

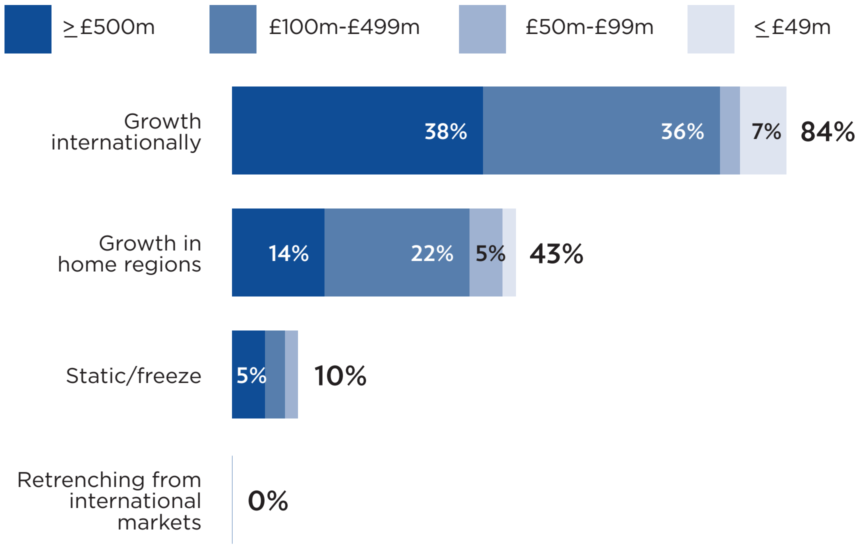
Leaders of large and mid-tier firms based in the UK show strong signs of confidence to invest in growth, however — 84% of those already with a footprint beyond the UK/Ireland have further international expansion as a pillar of strategy. A steady 43% of this group also envisage growth within the home territories, whether that's brand-new offices or team building. When it comes to firms that only have offices in the UK at present, 13% now plan to put down roots overseas — a jump from 6% of leaders indicating this in 2023.

Once again, however, over a third (35%) of leaders say their firm has considered international expansion but met with barriers/challenges to its achievement (p8). These range from the above-mentioned geopolitics to local regulations in target jurisdictions — and the cost, including of management time, making it harder to reach a return on the investment. "There is the significant cost of overseas offices [when] most international work is routed through London anyway," explains one leader. 'Best-friends' and similar networks of firms are also highlighted as a route that can provide the required international support — without "dilution of focus on the existing footprint".

One respondent observes: "Particular markets are now saturated and so competition is fierce. Investment in both time and money needs to be

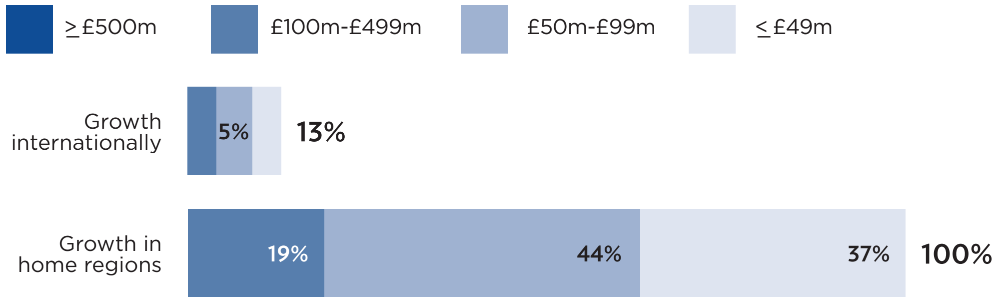
What is your current growth strategy? (International already)

Firms with an international footprint focused on further growth



What is your current growth strategy? (UK/Ireland only)

All firms in the UK/Ireland preparing for more growth at home



carefully managed and monitored."

"Potential regulation of the litigation funding market, both in the UK and elsewhere, will have an impact on our decision to expand our presence in the group claims market," adds another.

BUSINESS BARRIERS BREAKDOWN

A further very common theme is identifying, and staying competitive to attract, the talent firms need to grow in any new locations they have in their sights.

Indeed, availability of talent is the top challenge identified by leaders planning any form of strategic growth (cited by 59%) — far ahead of concerns around the volume or complexity of changing regulation (12%), variable results in terms of profitability (12%) or the clear escalation in geopolitical conflict in 2024 (16%). Furthermore, only 12% indicate that securing finance for their growth plans is a top challenge, compared to 31% identifying this in 2023 (p10).

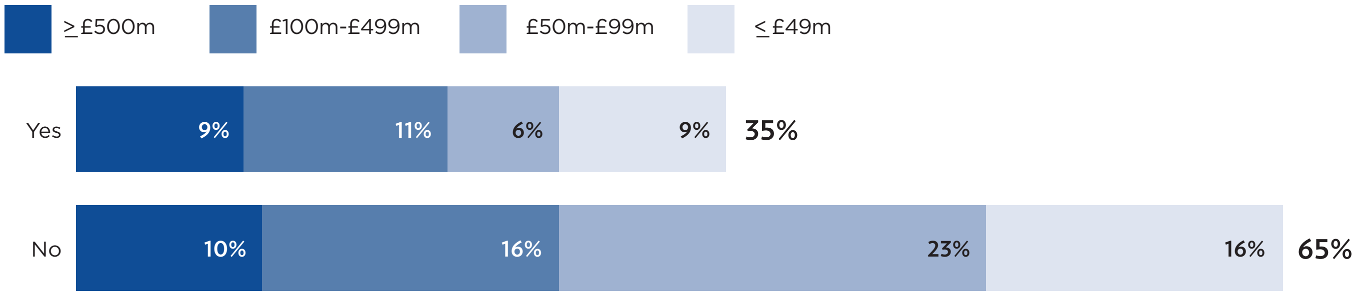
However, Kevin Munslow, CEO at Signature Litigation, says: "Brexit has presented a challenge to accessing partner capital funding. Firms may need to find different ways of funding as they grow."

James Beatton, managing partner at Cripps, says one of his first priorities taking on the role was to recruit a new director of people "with deep experience of the sector and the people challenges surrounding it".

He says: "We are increasingly data-led — and transparent — in our understanding of the competitive talent market and have improved our recruitment of people who will ultimately be successful at the firm, which reduces risk of early attrition."

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

From time-cost to talent supply, one-third of firms continue to encounter obstacles



> "You can't win the war for talent with a chequebook alone. We can only achieve the ambition and strategic growth we want if our people are happy and want to work towards achieving that. People also work differently now."
>
> **Helen Drayton, CEO, Penningtons Manches Cooper**

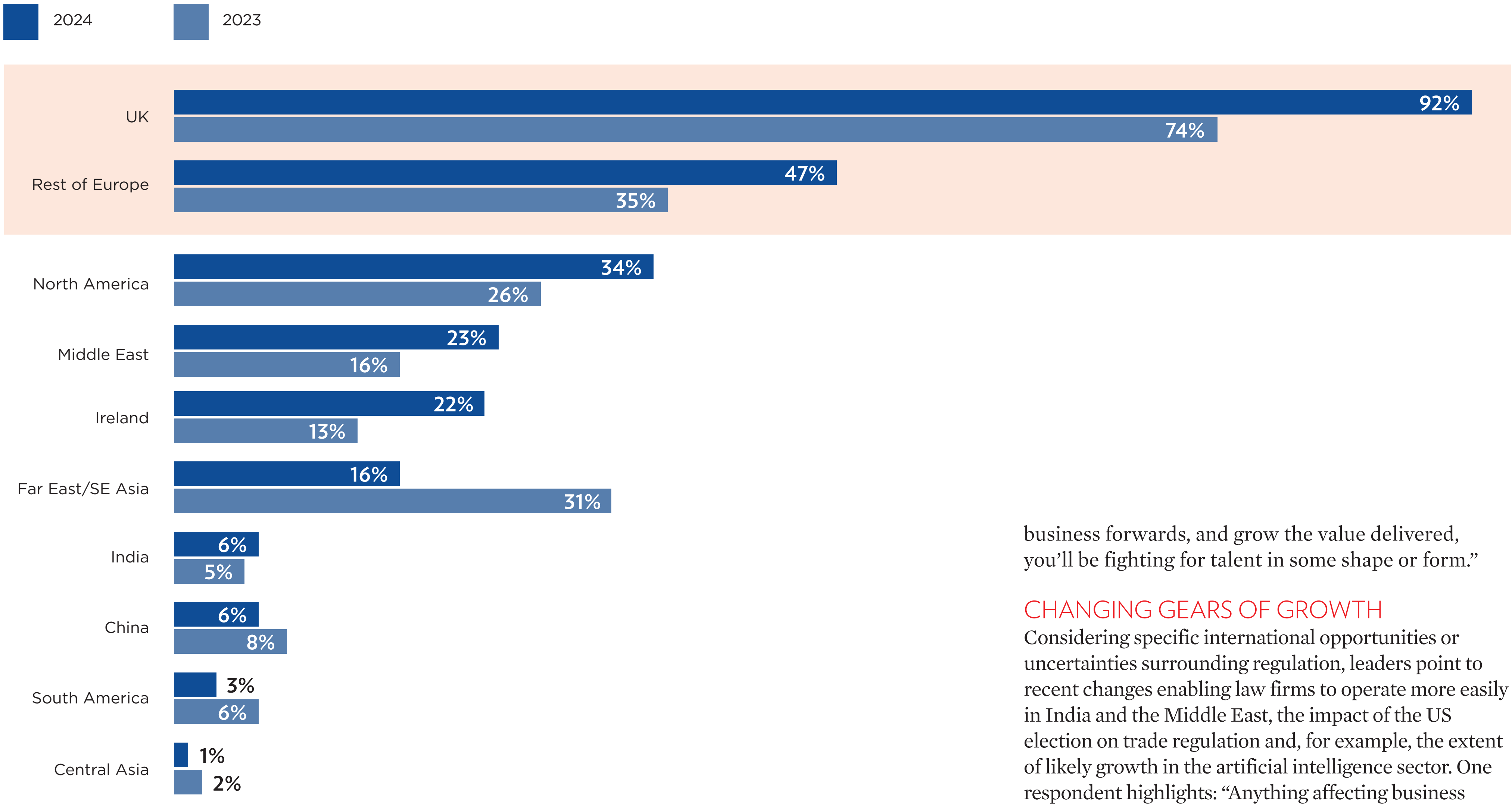
As salaries for young lawyers at some firms soar, part of this is effectively articulating and demonstrating ideas of "purpose and values", he adds — "the type of business we believe we are and that we want to continue to be".

Helen Drayton, CEO at Penningtons Manches Cooper, adds: "You can't win the war for talent with a chequebook alone. We can only achieve the ambition and strategic growth we want if our people are happy and want to work towards achieving that." The firm has produced a set of strategic deliverables, from which everybody was invited to identify a contribution. "People also work differently now, and we need to recognise that, including by investing in the environment and culture that surrounds them." They will sometimes even leave for a larger firm and return for these other factors, including the work-life balance, she adds.

Chris Harte, CEO at Morton Fraser Macroberts in Scotland, adds: "We may see artificial intelligence have a greater impact on the talent market in future — it's not being felt yet — but if you want to take a

Which regions or countries are you most prioritising/focused on for growth over the next three years?

The UK and Europe are top-priority regions, with more leaders also identifying North America and the Middle East in 2024



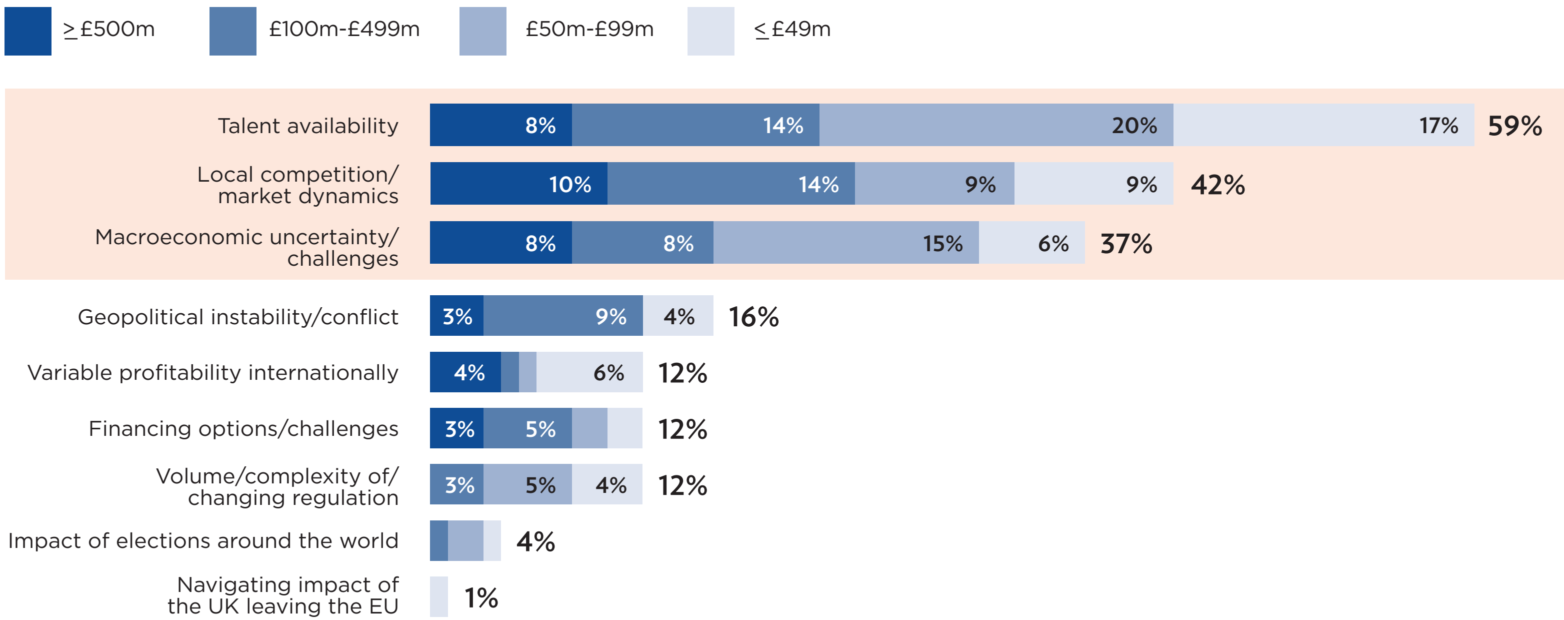
business forwards, and grow the value delivered, you'll be fighting for talent in some shape or form."

CHANGING GEARS OF GROWTH

Considering specific international opportunities or uncertainties surrounding regulation, leaders point to recent changes enabling law firms to operate more easily in India and the Middle East, the impact of the US election on trade regulation and, for example, the extent of likely growth in the artificial intelligence sector. One respondent highlights: "Anything affecting business

Which factors are most challenging your strategic growth planning and decision-making in 2024?

Identifying and recruiting talent in a competitive market is law firm strategy leaders' top growth challenge



> "We may see artificial intelligence have a greater impact on the talent market in future — it's not being felt yet — but if you want to take a business forwards, and grow the value delivered, you'll be fighting for talent in some shape or form."

Chris Harte, CEO, Morton Fraser Macroberts

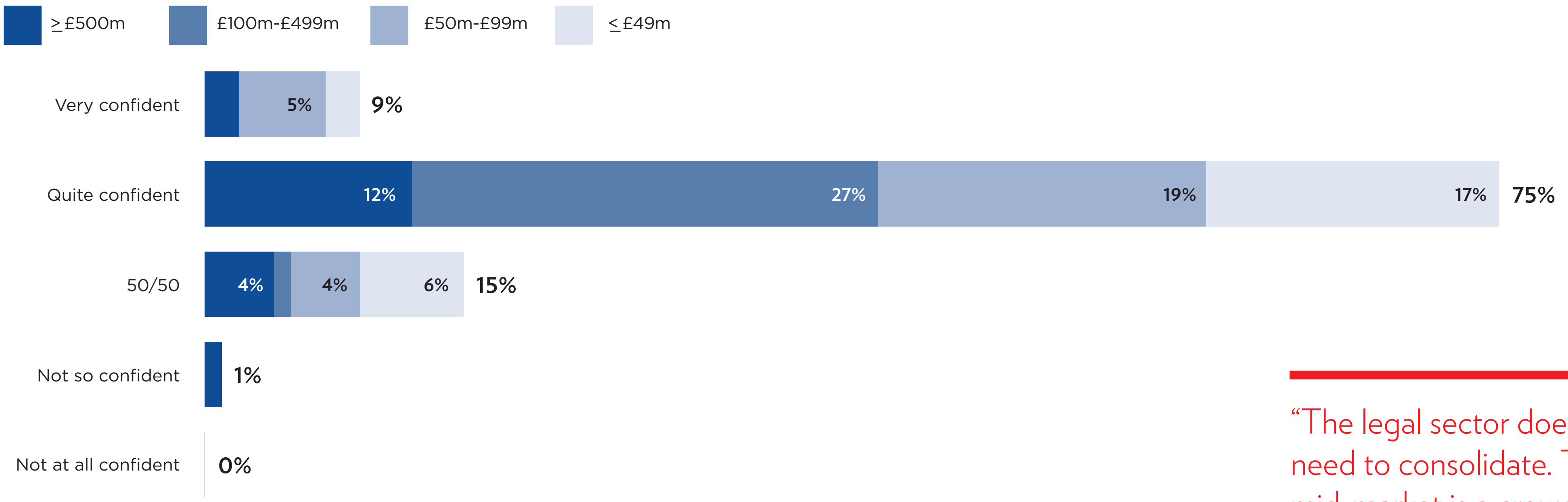
confidence generally — such as the simplification of business regulation — will have a positive impact on transactions, and we then benefit indirectly."

Peter Swinburn, CEO at the seven-office UK national firm Clarke Willmott, says most of its growth focus is on this "core domestic platform", with careful consideration given to any specific further moves: "The offices have all recently been regeared and updated and we're pleased with the present footprint," he says. The possibilities for further exploration include an offshore relationship in the Channel Islands and "growth of an already strong network relationship in China", he adds. "There are also opportunities with inbound investment from India in both the corporate and private client spaces."

Donney Seow, chief operating officer at global firm Hogan Lovells, says: "Many firms have been preparing for the opportunity opening in India behind the scenes. Timing and nature of the presence will depend on regulatory change, but it's one jurisdiction

How confident are you in the market/business outlook for 2024-2025?

Over four-fifths of leaders are quite confident, or very confident, about the year ahead



where there are significant opportunities." Firms are also expanding in Saudi Arabia after a recent change to rules restricting foreign lawyers from working in the country. "The Middle East is a region with significant opportunities — the Saudi government has a very ambitious growth programme — to build a wider platform, but long-term success will be centred on relationships," he adds.

Overall, 84% of leaders indicate their overall outlook is positive for 2024-2025 — with one in 10 able to say they're 'very confident'. Just 1% put their sentiment at less than 50/50.

"Lee Ranson,CEO at Eversheds Sutherland International, adds: "Some anticipated areas of growth, such as M&A, perhaps haven't been quite as active as was assumed. That, along with ongoing geopolitical considerations, and specifically uncertainty surrounding some elections and jurisdictions, means firms have to continually test and evaluate their investment plans."

> "The legal sector does need to consolidate. The mid-market is a crowded place, and you need to grow to continue to invest. I believe we'll see more evidence of whether private equity has a role to play."
>
> **James Beatton, managing partner, Cripps**

02

Lateral hires most likely growth route in high-pressure market

Almost half (49%) of leaders also expect their firm to be involved in either merger or acquisition, while two-thirds are reviewing routes through client/business sectors

Drilling down into how firms will pursue the next year's growth plans — domestic or international — leaders are most likely to say they're focused on the challenge of lateral hiring the talent they need. Two-thirds also plan to do so in new geographies or business specialisms — and the same number are actively reviewing the client sector groups through which they go to market (p13).

Munslow at Signature Litigation says all his firm's recent strong international growth in Europe has been driven by targeted lateral hires: "Rather than a hit list of places to open in, we've found groups of people, complementary to the way we work, where joining has made strategic sense."

Swinburn says Clarke Willmott has refreshed its strategy in the last 18 months: "After establishing a very sustainable and profitable business model, powering through the £60m revenue mark is now a big part of the plan." This includes diversifying into adjacent sectors available, or those which competitors might have neglected — such as commercial farming, which is complementary to private client work in the area, he explains.

On the other hand however, effort involved in running more than one regulatory regime could "overwhelm" opportunity in offering services adjacent to legal itself.

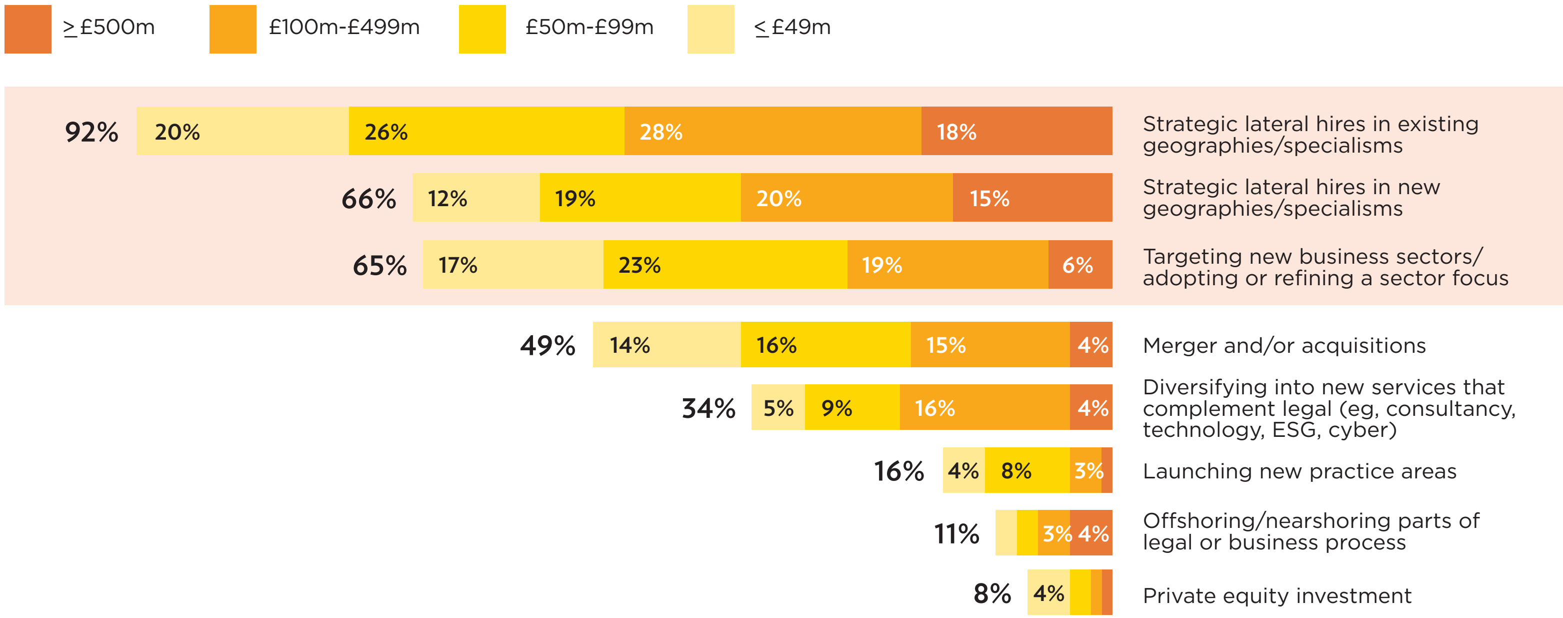
QUESTION OF CONSOLIDATION

At the same time, a significant 49% of leaders indicate they are open to merger or acquisition to scale, or perhaps future-proof — a result in line with the 78% (p14) saying they anticipate more M&A across the sector in the year ahead (up from 74% in 2023).

Richard Pollins, managing partner at DMH Stallard, which has carried out five mergers or acquisitions since 2014, says: "Merger may be a faster way to grow, but it needs to be timed in bursts. There's a lot of work to manage from an integration and profitability perspective. When identifying merger targets we always look very closely at the potential partner groups

Which routes to growth will your firm actively be pursuing or expanding through 2024-2025?

Almost all leaders say firms will seek more lateral hires in their current areas, and half see M&A on their horizon



in terms of both legal talent and cultural alignment — but to keep momentum we typically also welcome up to 10 lateral hires a year."

Beatton at Cripps says: "The legal sector does need to consolidate in the next 18 months. The mid-market is a crowded place, and you need to grow to continue to invest. It may involve more mergers or new players coming in, and I believe we'll see more evidence of whether private equity has a role to play in the business-to-business market — and whether firms continue to operate as LLPs."

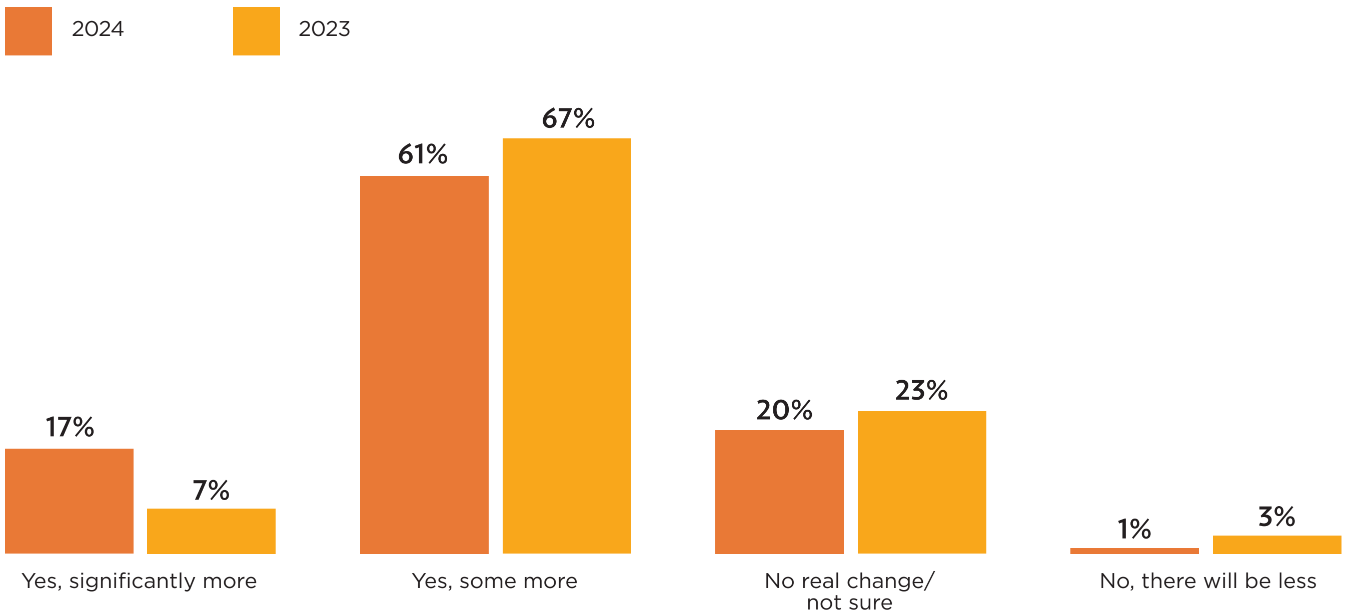
However, just 8% envisage private equity backing having a role in their near futures — despite an increase in the number viewing PE as a lot, or at least somewhat, 'more attractive' as an option than it was two years ago (p15). At the same time, there's a significant drop in the number describing it as 'less attractive' as a route to their growth or transformation, from 33% to 11%.

At firms where it's relevant to their practice mix, almost a third (31%) also see litigation funding as a more attractive prospect for funding the range of work they want to take on than was the case in 2022 (p15).

> "When identifying merger targets we always look very closely at the potential partner groups in terms of both legal talent and cultural alignment — to keep momentum we also typically welcome up to 10 lateral hires a year."
>
> **Richard Pollins, managing partner, DMH Stallard**

Do you think there will be more M&A in the legal sector over the next 12 months?

More leaders than in 2023 expect increased M&A in the market overall next year



> "Expansion of those prepared to provide funding is certainly helpful to those considering it — they can gain from some more consistent billing and cashflow at a time when it may be very tight to self-fund in some cases."
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> **Peter Swinburn, CEO, Clarke Willmott**

Swinburn says: "Expansion of those prepared to provide funding is certainly helpful to those considering it — they can gain from some more consistent billing and cashflow at a time when it may be very tight to self-fund in some cases. The impact on work in progress can make a big difference in the decision whether to take the case."

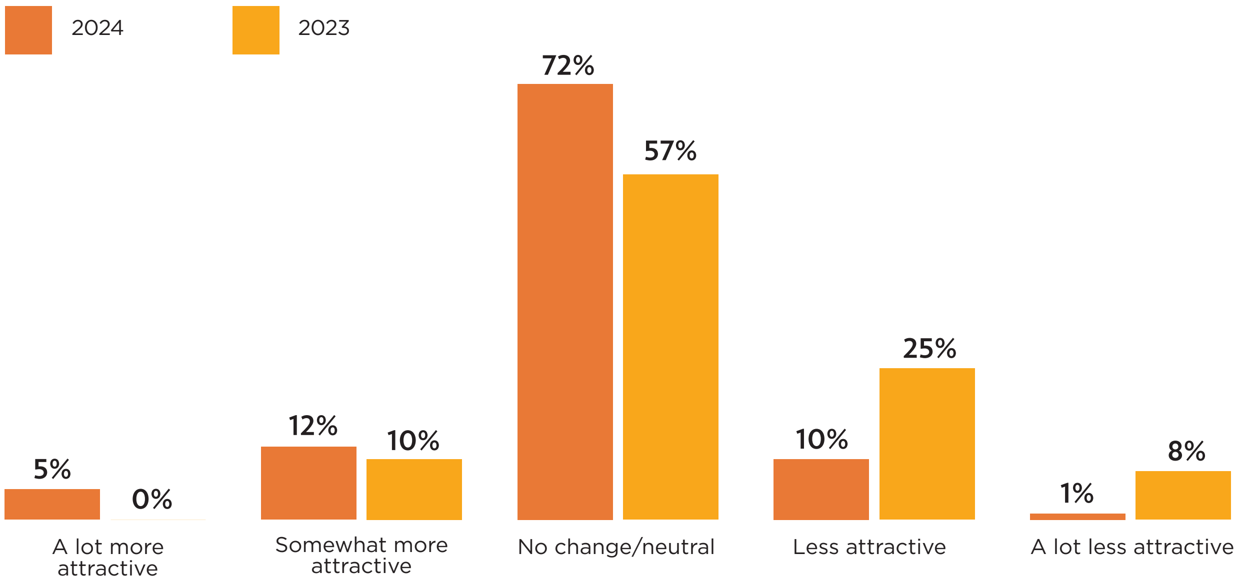
Sarah Walker-Smith, CEO of Ampa, which includes law firm Shakespeare Martineau, adds: "Private equity and litigation funding provide fuel to drive further growth and expansion in the sector as the main barrier in the short-term is the working capital requirements. Unless the business model changes to advance billing, for example, or overhauls the typical debt-to-equity ratio model expected by banks, it will be a necessary part of any ambitious and expensive business. It will also support technological investment of the future, which would be hard to do from debt alone."

STRUCTURAL CHANGES?

But one area of strategic decision-making where leaders show little appetite for a change is the direction

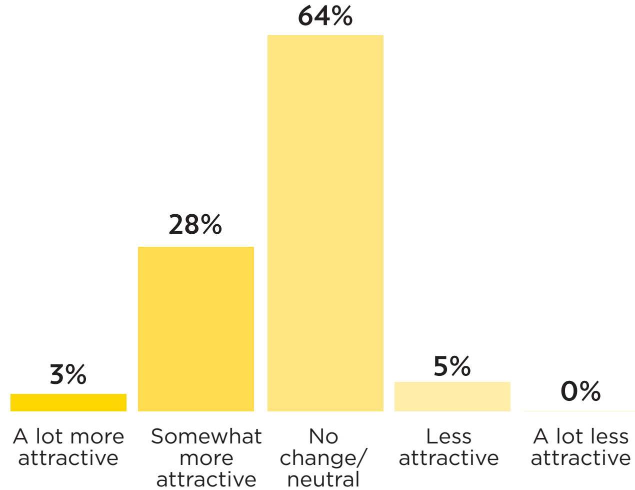
How has your perception of the attractiveness of private equity investment as a route to growth/transformation changed over the past two years?

Private equity is more attractive to a minority of law firm leaders in 2024



How has your perception of the attractiveness of litigation funding facilities to finance work/growth changed over the past two years?

A third of leaders see litigation funding as a more attractive option



of the overall ownership structure — the limited liability partnership continuing to dominate as the perceived likeliest way for firms to manage themselves five years from now (89%). However, a fifth either are — or can see themselves as — directors and shareholders of limited companies with their alternative tax and potential people management arrangements (p16). Only 6% believe their firm is most likely to be listed as a plc at this point in the future — consistent with previous years' research (8% in 2022). The same proportion are persuaded of the benefits of becoming an employee ownership trust — albeit a complicated transition.

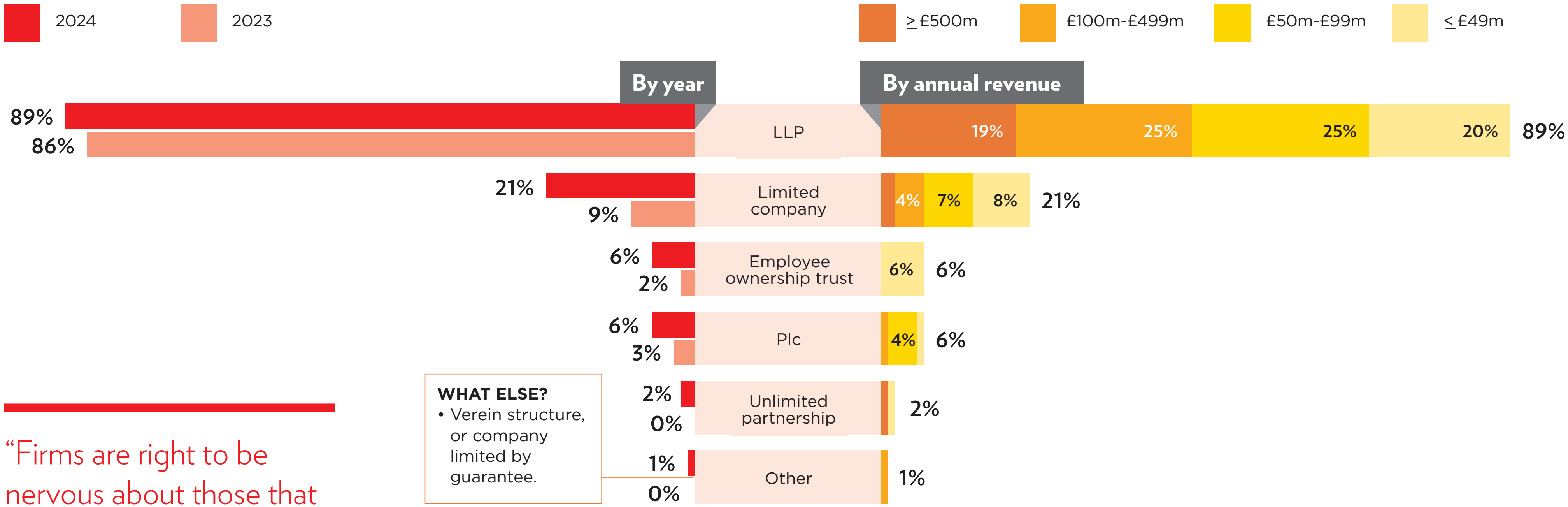
Munslow says: "The LLP is generally the more tax-efficient structure today, but that could change. Firms typically don't retain earnings, but if borrowing to invest becomes more challenging and they decide to adopt more of a retention policy in future, a corporate structure may be the better long-term course."

Regardless of the road taken to their growth goals, one key consideration is likely to be how well these choices enable investment in new or updated technology to boost operational efficiency, client service and compliance, among other measures of organisational success. For a second year, more than three-quarters (77%) pick out other law firms with more "technology-driven business models" as the market trend most likely to heap competitive pressure on their business (p17) — more significant even than the team/lateral hiring that is such a dominant feature of many strategic plans (41%).

Seow at Hogan Lovells says: "Clients are putting firms under enormous pressure to become more

Which ownership structures(s) do you think your firm is most likely to have in the year 2030?

Twice as many leaders as in 2023 could see their firms as a limited company in future — but most see the LLP model likely to prevail



> "Firms are right to be nervous about those that have invested in the right technology to disrupt the market — and the plc structure is helpful for securing that investment and support to move forward with innovation."
>
> **Nick Capell, IT director, Gateley**

efficient and effective in terms of process and technology — even to be cutting-edge. As they become more sophisticated, and branch out across sectors for example, the firms may also need more scale to match and invest in attracting the talent."

Nick Capell, IT director at Gateley, adds: "Firms are right to be nervous about those that have invested in the right technology to disrupt the market — and the plc structure is helpful for securing that investment and support, with clear and efficient decision-making, to move forward with innovation."

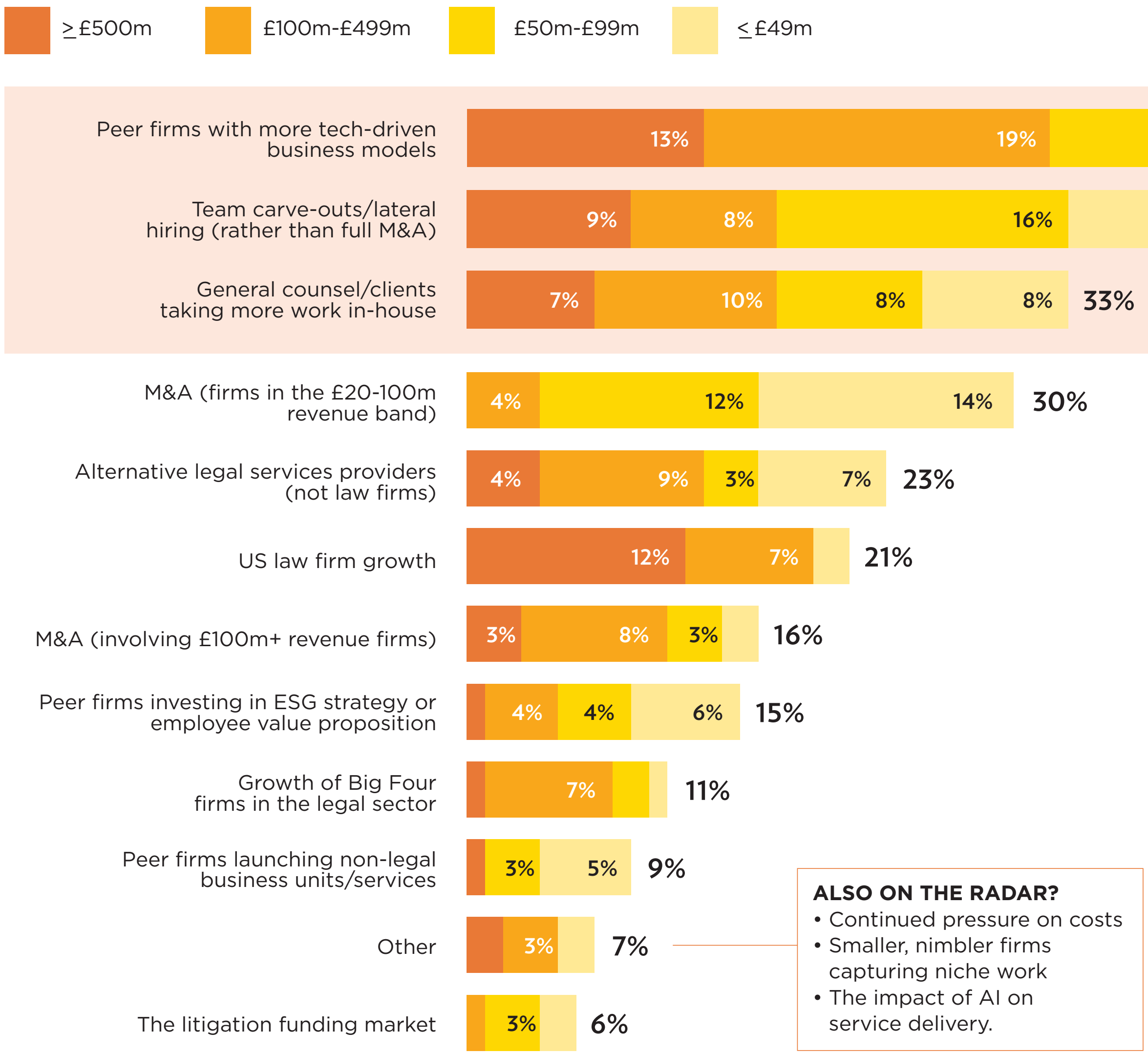
COMPETITION FROM THE CLIENT

In third place for disruptive potential then comes the pattern of general counsel choosing to resource and manage more of the legal work in-house (p17); an endeavour where firms could be challenged to demonstrate they're positioned to support this goal with process improvement on the client's terms.

Chris Harte at Morton Fraser Macroberts says: "It's true that firms are competing with clients themselves more today. We need a more open conversation about value, where we can best provide support, and build a

Which forces/drivers of change in the UK legal market present most potential for disruption at your firm?

As in 2023, leaders are clearly most wary of other law firms investing more — or more effectively — in technology



partnering model to work together effectively in tandem."

Drayton at Penningtons Manches Cooper says: "Some cost pressures are inevitable, but to develop relationships firms need to ask their clients the right questions, understand the challenges as they apply in their particular circumstances, and give advice in the context of why it's needed and how it will be cascaded across the business."

Mergers, the power of the Big Four accountancies/consultancies, and growth of US-headquartered firms in the UK (perhaps also of the salaries they will offer) are all seen as lesser likely disruptors to firms' overall fortunes. Within the technology area, however, several identify the expected impact of generative artificial intelligence (genAI) on process efficiency — or the business model — in particular (left).

03

Average IT spend on the increase as AI back in efficiency frame

The average level of technology investment expected is 6% of annual revenue — to streamline or future-proof firm operations — and over half see a role for generative AI in production of legal work for clients

The average (mean) sum that leaders believe their firms will be investing in technology throughout 2024-2025 (including for the people with expertise in delivering or developing it) is 6.1% of total annual revenue (p20). It's an increase from 5.7% in 2023 — and for a fifth it's a spend that has increased significantly (three-fifths noting at least some increase). Leaders may be highly aware of a need to become more efficient in different respects, from data management to document creation and delivery — or indeed to support client onboarding and engagement through new interfaces — to compete in their markets more effectively.

Some of the investment may be channelled into managing a scenario that has emerged as the highest-ranking organisational challenge for leaders in 2024 — the threat of cyberattack, data loss and potential reputational damage (right) — and perhaps leaders are also weighing what they need to budget for tools that harness the power of genAI to accelerate a range of fee earner or business service-oriented tasks and streamline team workloads into more productive and profitable experiences.

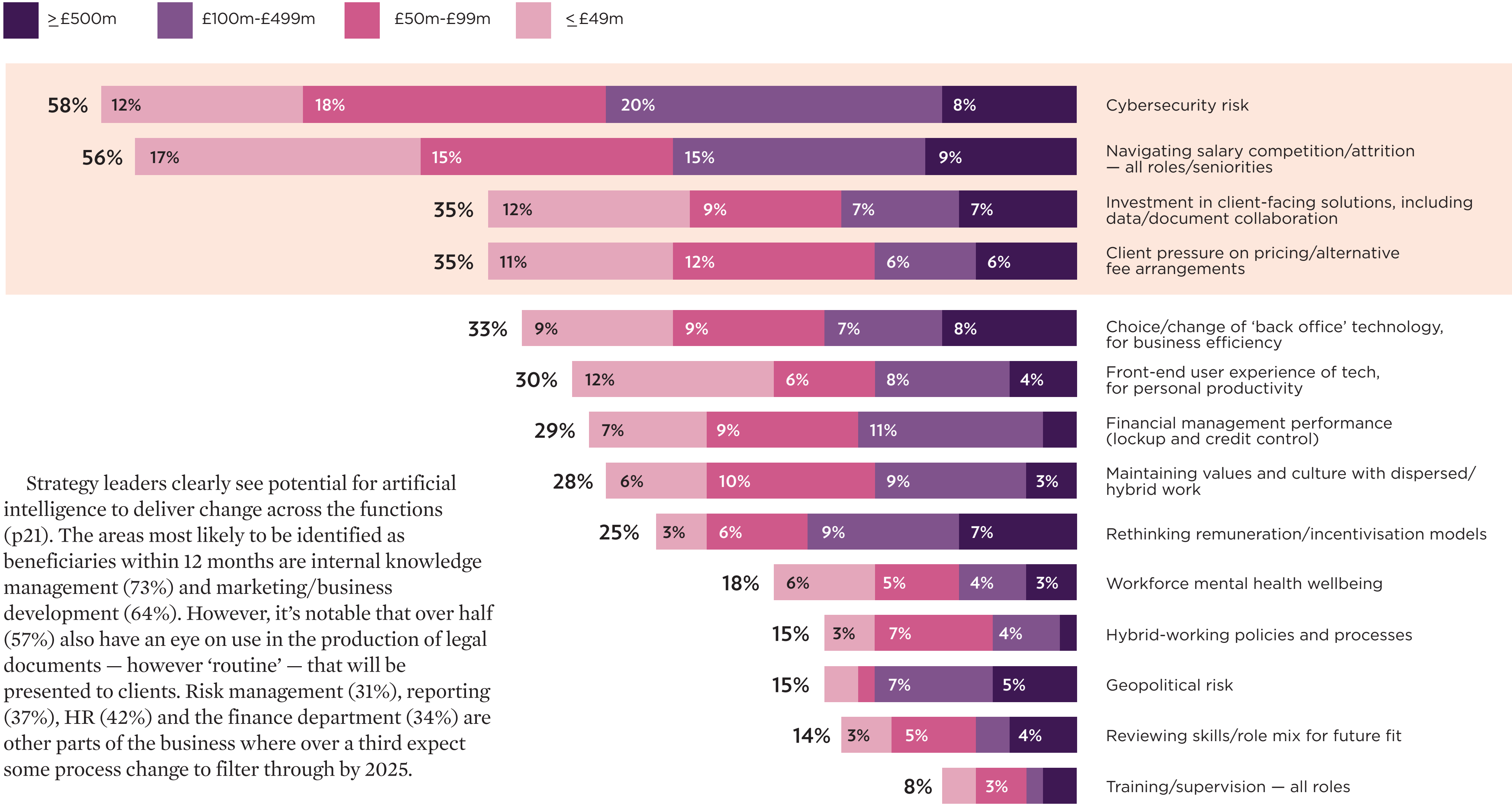
Beatton at Cripps says: "Cybersecurity continues to be a deep latent threat. Firms will invest a huge amount in technology and training, but there is human error in everything, and it only takes one of your people to click on something they shouldn't. The potential financial and reputational implications of cyberattacks are very sobering."

Munslow adds: "Although outsourced, it's always top of the agenda — and there's a delicate balance to be found in having the right robust security policies and processes that don't overly frustrate fee earners as they work."

Capell at Gateley says: "After identifying it as a major risk, our firm is now several years into a cybersecurity programme that has seen a step-change in capability — compliance requires continuous activity and effective internal communication."

Which organisational challenges are most concerning to your firm in 2024?

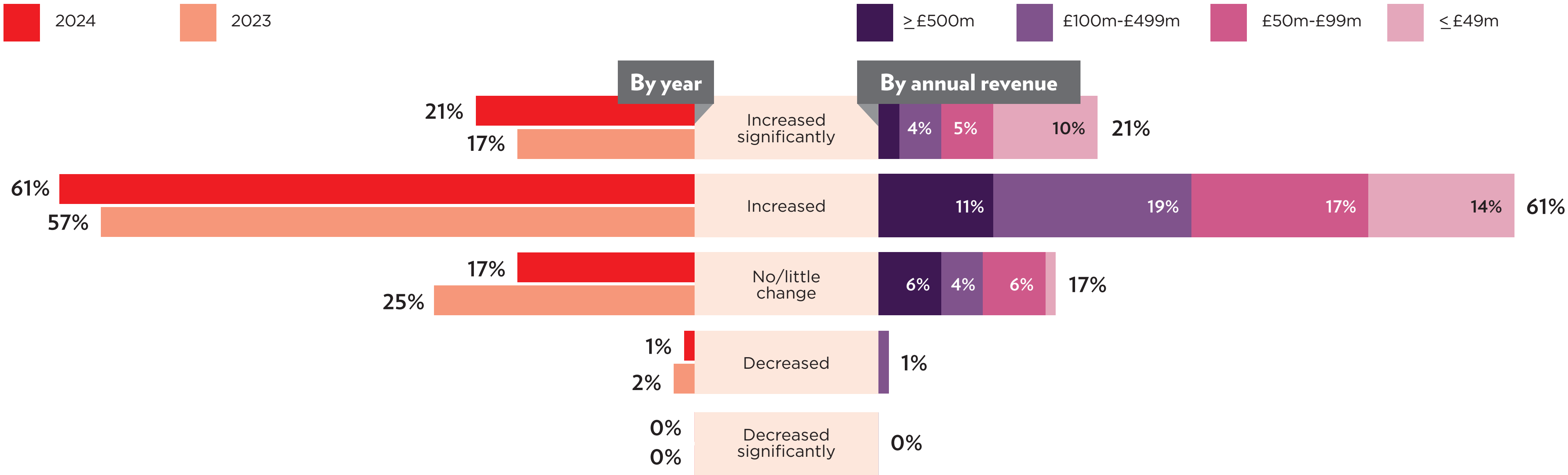
Cybersecurity overtakes the 'war for talent' as leaders' top pressure-point in 2024



Strategy leaders clearly see potential for artificial intelligence to deliver change across the functions (p21). The areas most likely to be identified as beneficiaries within 12 months are internal knowledge management (73%) and marketing/business development (64%). However, it's notable that over half (57%) also have an eye on use in the production of legal documents — however 'routine' — that will be presented to clients. Risk management (31%), reporting (37%), HR (42%) and the finance department (34%) are other parts of the business where over a third expect some process change to filter through by 2025.

How has your firm's technology spend changed compared to 2023?

Leaders expect to spend an average 6% of annual revenue on IT overall in 2024-25, an increase from 5% last year



6.1%

Average (mean) — Median = 6%

*The approximate **% of revenue strategic leaders at UK firms expect to spend on technology** through 2024-2025 (including on infrastructure, solutions/software and people/skills)*

CHALLENGES TO CHOOSING AI

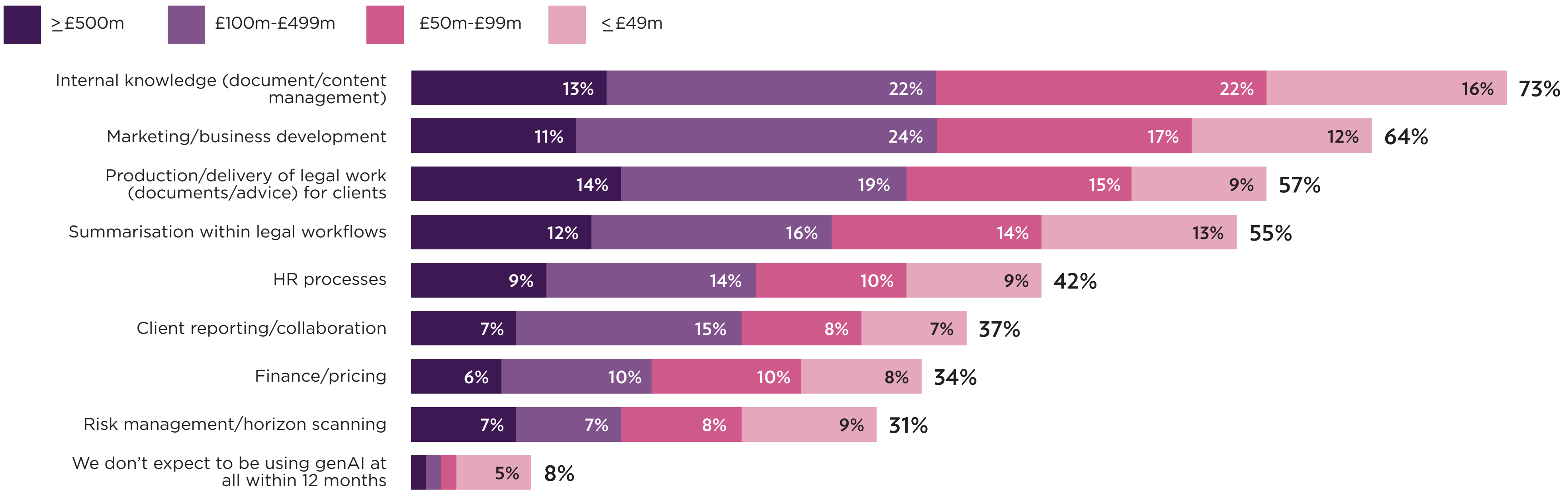
But leaders also see some specific barriers to progress towards these levels of adoption. Lawyers and clients alike must clearly be able to trust what is produced by any human-machine hybrid at work, and more than half (51%) indicate some concern at the firm surrounding the accuracy, or overall quality, of output when using large language models (p22). The results must first be checked by a professional, and such steps of course need to be factored into the efficiency equation to understand the true return on investment.

Indeed, a fifth (21%) identify ROI calculation as a significant barrier itself.

The next most common challenge highlighted is having the time or resource to explore offerings on the market and trial and assess the best use cases (34%) — especially when the sector is so fast-evolving — closely followed by concerns about the technology's security and any risk to the firm's proprietary knowledge or client data (29%). For almost a quarter (24%) introduction alongside the firm's existing technology poses a challenge — but only 7% report any resistance to use in

In which of your firm's business areas/functions do you expect at least some processes to involve genAI within 12 months?

Over half of leaders expect to see generative artificial intelligence used in the creation of legal product in 2025



their legal work from clients (organisations that may well have their own plans to exploit the technology after all, including within legal departments).

Drayton at Penningtons Manches Cooper says: "Our AI strategy comprises education — around limitations, as well as use and potential — engagement and exploration. Trainees can be actively involved in our AI working group — and when we consider a new piece of technology, we do need to explore it properly and ensure that people are using it consistently and as clients expect."

Seow at Hogan Lovells adds: "Risk introducing AI increases if a firm's data isn't fundamentally well-maintained — it's crucial that the output from any implemented tools can be trusted."

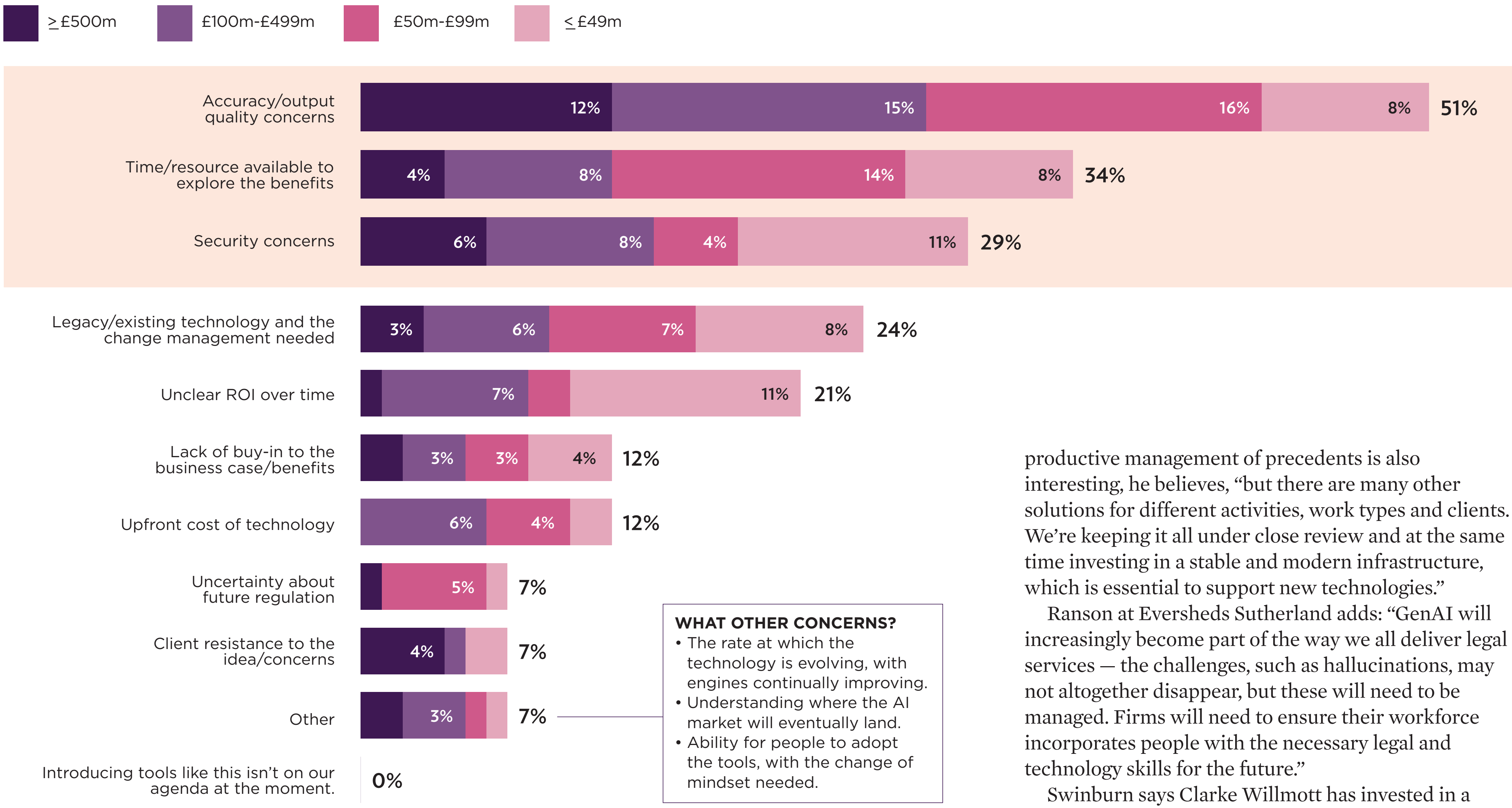
Harte at Morton Fraser Macroberts says: "There's a certain inherent tension in that on the one hand clients rightly want their firms to be innovative, but on the other it's really important for them to know that their data is super-secure."

He continues: "A lot of solutions will ultimately be driven by the largest suppliers, rather than firms each developing their own bespoke products." They may also see a need to invest in more IT trainers, he suggests, as tool-based service delivery increasingly changes in the hands of fee earners: "The big challenges will continue to be getting the best value from the technology available and developing people and skills to that end."

Possibly speaking for many, Pollins at DMH Stallard says: "Microsoft Copilot is likely to have the biggest impact in the near term — as firms are all already using the suite of Microsoft products." The potential for more

What are the biggest barriers to making decisions or progress on using tools that involve genAI in process at your firm?

The top perceived obstacles to making more use of genAI are risk (accuracy, security) and the time needed to explore it



WHAT OTHER CONCERNS?
- The rate at which the technology is evolving, with engines continually improving.
- Understanding where the AI market will eventually land.
- Ability for people to adopt the tools, with the change of mindset needed.

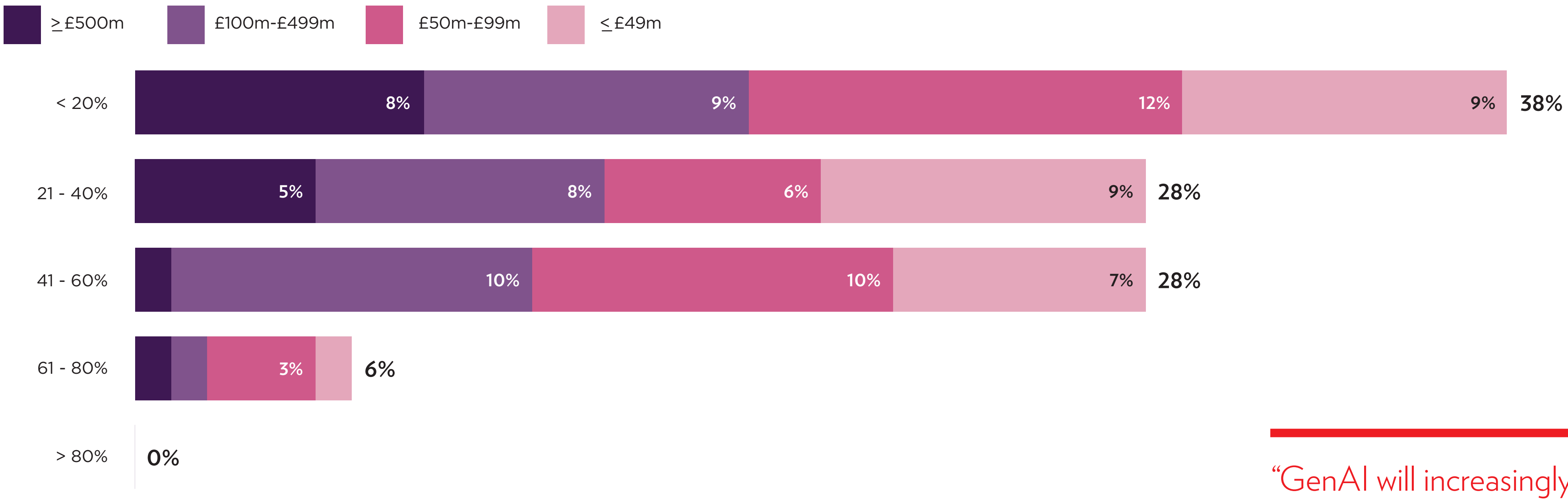
productive management of precedents is also interesting, he believes, "but there are many other solutions for different activities, work types and clients. We're keeping it all under close review and at the same time investing in a stable and modern infrastructure, which is essential to support new technologies."

Ranson at Eversheds Sutherland adds: "GenAI will increasingly become part of the way we all deliver legal services — the challenges, such as hallucinations, may not altogether disappear, but these will need to be managed. Firms will need to ensure their workforce incorporates people with the necessary legal and technology skills for the future."

Swinburn says Clarke Willmott has invested in a

Approximately what % of your firm's typical work as a whole is priced as an AFA to the billable hour?

Leaders at more than half of firms estimate 20-60% of their work is priced with an alternative fee arrangement



major IT overhaul to more robust cloud-based working: "We have more stability and ability to control new equipment and platforms coming online in future — and that includes processes or tools that introduce AI." The spend also goes towards improving operational resourcing, client-facing platforms and centralised performance models to achieve economies of scale, he adds.

However, Seow suggests leaders also keep a close eye on one-firm culture at a time of ever-faster technological evolution: "Culture takes years of effort to grow but is something that can be lost very quickly. We don't want our lawyers to be treated, or to feel like, productive machines. They also need to invest in relationship-building and being in the fabric of the firm."

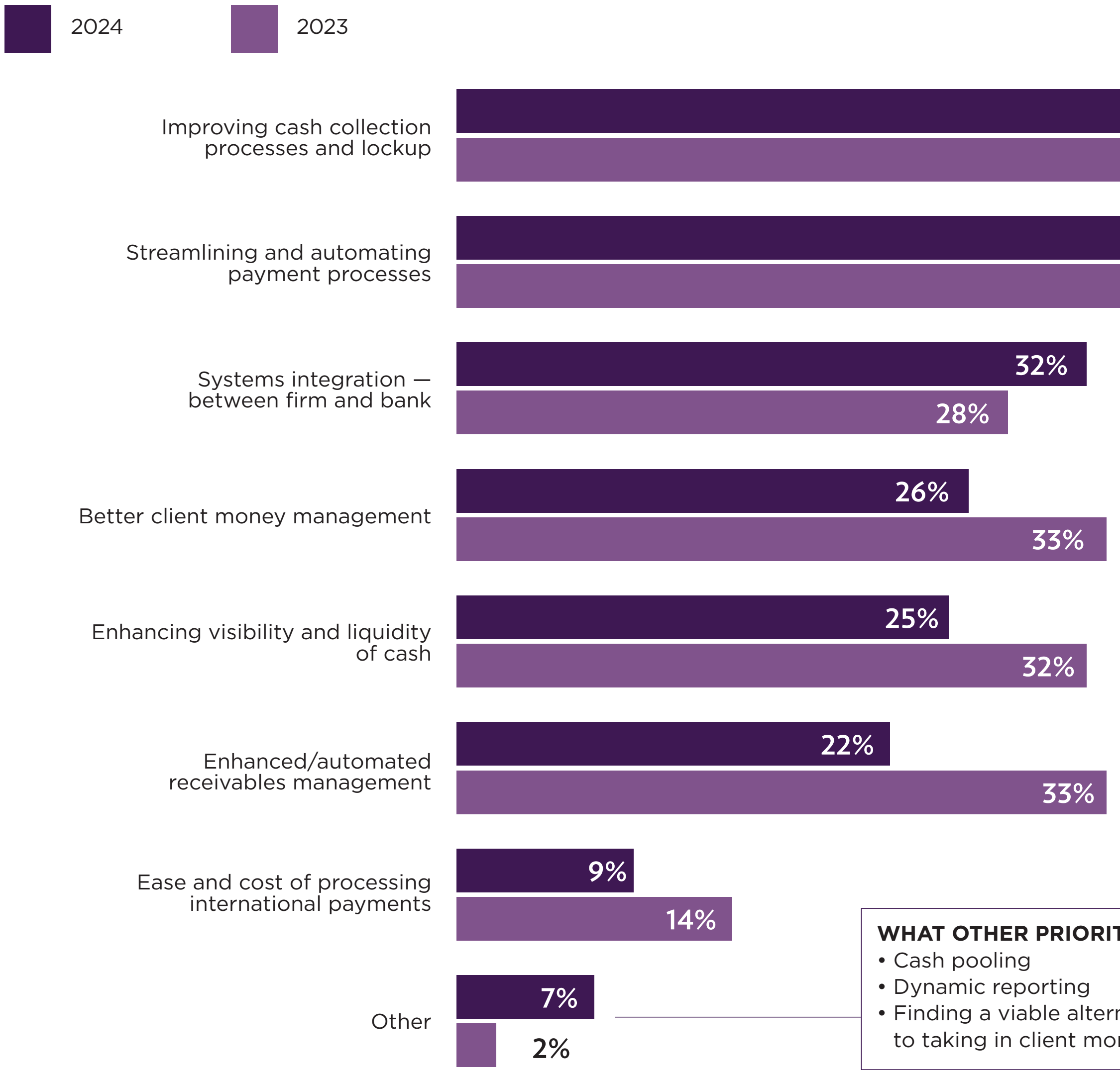
LESSONS IN LOCKUP

Another area of operations where tech and culture both might be leveraged for greater business efficiency is financial and cashflow management — with over three-quarters (79%) of leaders reporting that improved cash collection/reduced lockup is a top

> "GenAI will increasingly become part of the way we all deliver legal services — the challenges, such as hallucinations, may not altogether disappear, but these will need to be managed."
>
> **Lee Ranson, CEO, Eversheds Sutherland International**

What are your top three transactional banking priorities for improvement?

Cash collection has become leaders' top banking/financial business priority



WHAT OTHER PRIORITIES?
- Cash pooling
- Dynamic reporting
- Finding a viable alternative to taking in client monies.

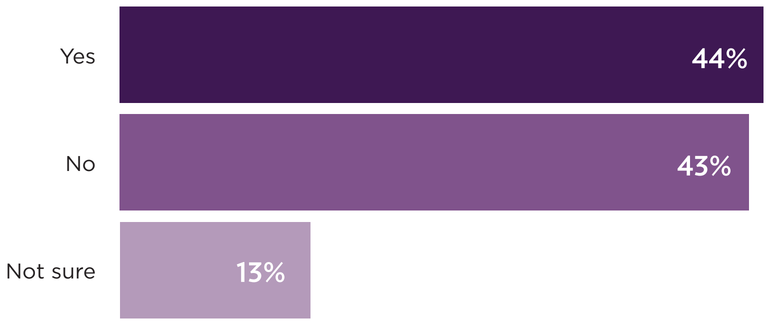
business priority for 2024. Almost half (48%) also have the automation of payments in their sights to streamline process (left).

Perhaps one positive indicator is that more leaders expect average lockup to reduce (56%) than believe it will increase (16%), but only 17% predict a reduction of more than five days (p26).

Adding to complexity and pressure around financial management, almost half (44%) say they still need to focus on adapting their working capital regime to the 'basis period' reforms to paying tax as a partnership — for which 2023-2024 was the transitional year. Over a third (38%) say they're using existing cash reserves to meet any additional requirements, but 64% believe they

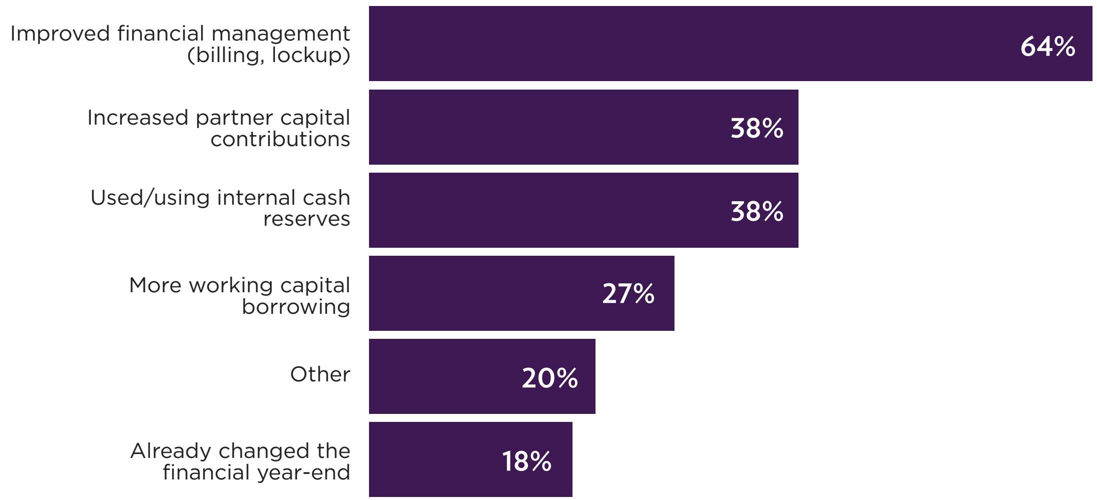
Will your firm need to make further change/focus more on working capital management this year owing to the 'transitional year' (23/24) to the new basis period for tax?

Almost half of leaders say they need to maintain focus on/ explore options for working capital management



What actions has your firm taken, or will it take, to fund/manage this situation?

Most leaders hope to see improved billing/lockup practices, but over a quarter also see a need for additional borrowing



must address their financial management practices (effective billing and lockup). A further 38% and 27% plan to increase partner capital contributions and their bank borrowing for the purpose respectively.

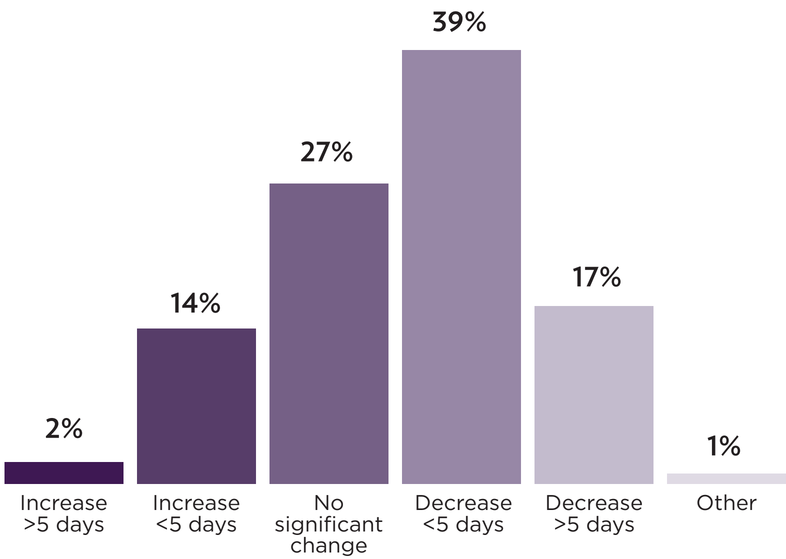
Swinburn continues: "The top priority is always sustainable financial modelling. Banking integration has effectively removed some steps from our financial processes — reducing material delays — and we can track and highlight the cash impact of bringing lockup days down daily." He also points to options such as interim client billing. Clarke Willmott has already accounted for the basis period reforms by moving its financial year-end to ease administration and ringfencing some internal reserves. "There is certainly a big payment for firms coming in January 2025, which some might find a challenge," he adds.

"The working capital proposition this year is very different," Harte agrees. "That is driving some clearer focus on lockup management — which can be very granular with the right data — and people need support in terms of financial literacy, and again perhaps with developing their business skillsets."

Walker-Smith at Ampa says: "There are many facets to this of course, but the most effective I've seen is to connect lockup to partner distributions."

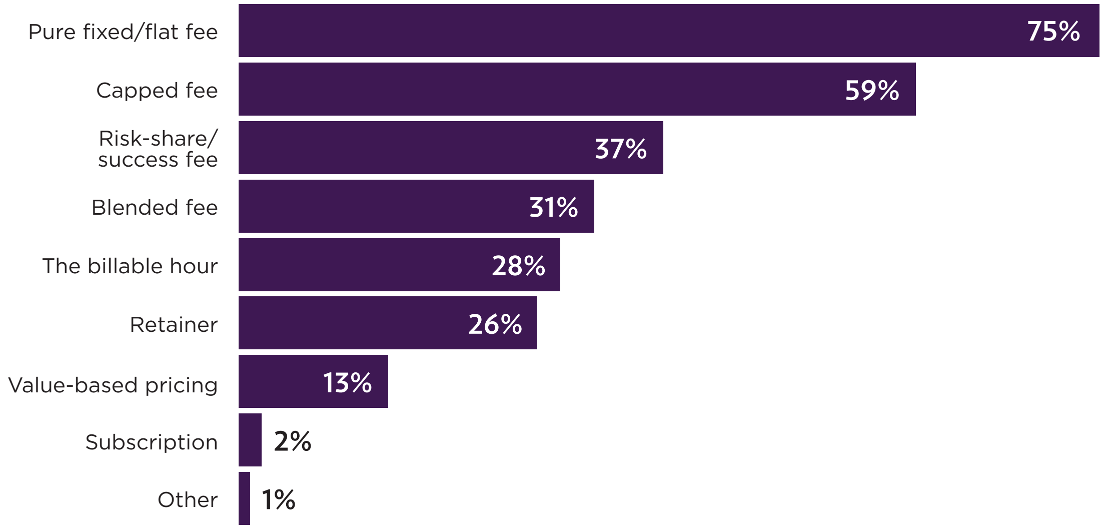
If genAI does manage to mould a step-change in legal service efficiency in the years ahead, an ingredient of profitability and strategy that may be impacted in turn is law firm pricing. If there's significant change in the cumulative human effort required to shape a given outcome, for example, is it harder to justify charging for that service by the billable hour? At present, 56% of leaders estimate that 20-60% of the typical work mix

How do you expect the firm's average lockup performance to change in 2024-2025?



For which pricing options/AFAs do you see most increase in client demand?

Three-quarters of leaders say more clients are looking for fixed fees in 2024, but the billable hour is still more popular than some pricing options



across practices is priced with an alternative fee arrangement (AFA) such as the fixed fee (p23). For more than a third (38%), however, 80% of agreements still come down to a version of the hourly rate. The forms of AFA for which they see the sharpest surge in client demand in 2024 are 'pure' fixed (75%), capped (59%) and risk- or success-share fees (37%), where the price may move depending on the outcome. However, more than a quarter (28%) still see clients with a preference for the billable hour.

Ranson continues: "The increased prevalence of fixed fees is a long-term trend — albeit one that hasn't accelerated to the extent some expected a decade ago. The use of new technology, the costs and change in approach it is likely to bring, will only likely add to the push."

Harte says clients of Morton Fraser Macroberts are increasingly looking for the greater cost certainty associated with fixed fees and project-based billing: "The billable hour is now more of an internal measurement of the cost of delivering a service, rather than necessarily feeding directly into the price."

Pollins adds: "It would be dangerous to dismiss pressure on pricing, but the key is to be disciplined internally and clear with clients — to produce an engagement summary for every client assignment, so everyone is clear — as well as being flexible. Some want the certainty of a fixed fee, but many still trust us to work efficiently to an hourly rate. Most of our clients are relationship rather than price buyers, but as trusted advisers it's important to explore ways of partnering and creating cost-effective solutions, particularly in the case of larger transactions."

04

Firms continue push on ESG targets and transformation

Three-fifths of firms now have at least some key performance indicators in place to measure ESG performance, and half have an independent committee to advise the board on the required actions

The growing need for a truly strategic approach to decision-making surrounding environmental, social and governance (ESG) ambitions or requirements is evidenced by the fact over half (53%) of leaders now say the firm has an (internal) independent ESG committee to advise the main board about where it should act — steady growth from 45% in the 2023 research (p28).

Matt Sparkes, sustainability director at Linklaters, says: "There's growing recognition that sustainability should be baked into executive decision-making on a regular basis to work for long-term change. It's not just an annual review process. This requires pulling influential people from across the business together, so that governance input can also feed through to other parts of the organisation."

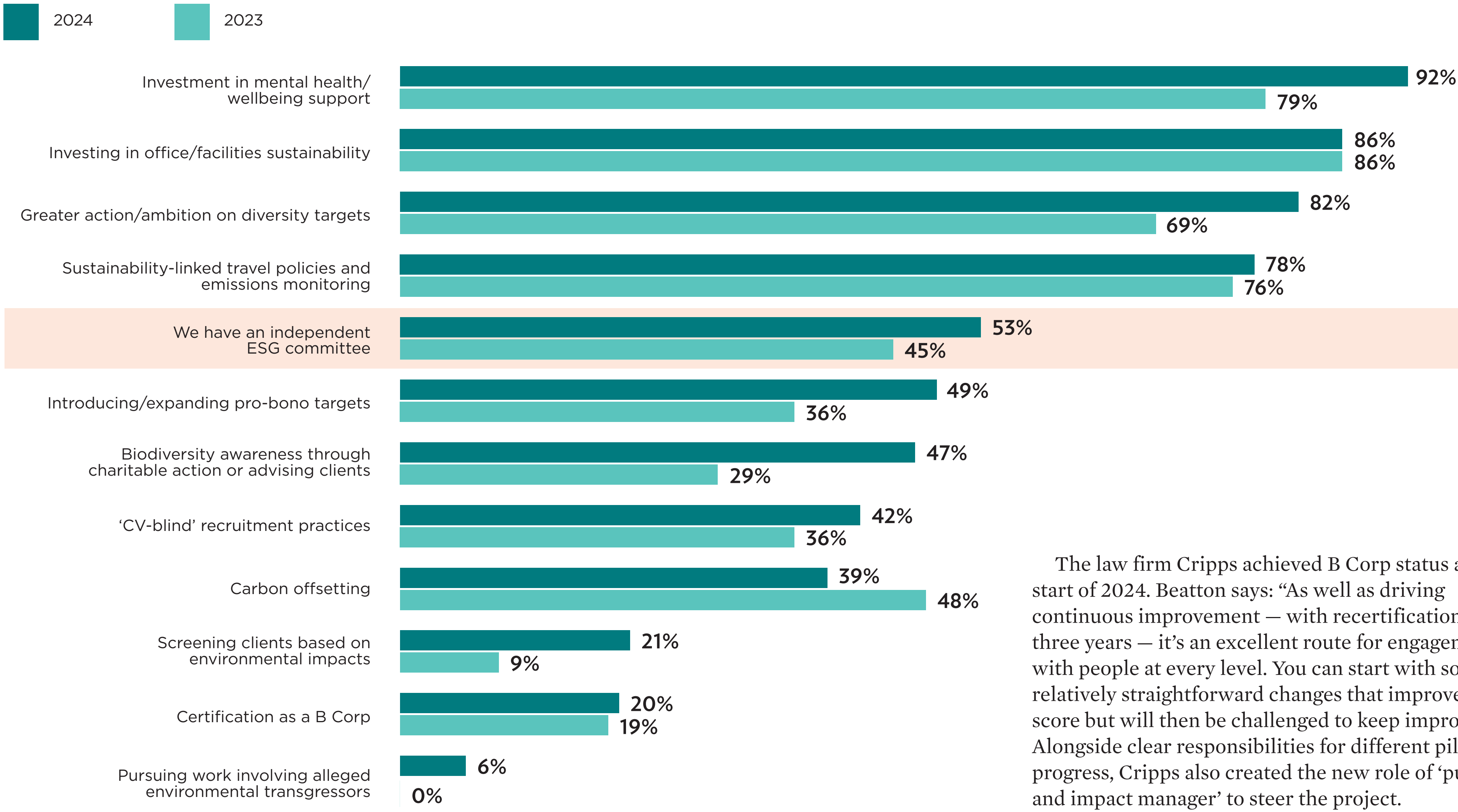
As many continue to invest in new or 'reimagined' workspaces, at the same time as embracing hybrid-work patterns, there's also continued strong interest in the sustainability value of these facilities (86%) and emissions monitoring/travel policies (78%). Meanwhile, there's a drop in the number who say they are carbon offsetting — from 48% to 39%.

A steady fifth of firms are certified as a 'B Corp' business — or seeking this accreditation — a process they find enables an audit of ESG-focused performance across the organisation, effectively demonstrating certain standards, and embeds a framework for continuous improvement against the various aspects each year.

And it's striking that over twice as many (21%) as in 2023 (9%) report the firm is prepared to 'screen' clients it works for in terms of potential environmental impact flowing from their business activities.

Which 'ESG' actions is the firm taking, or taking further, in 2024-2025?

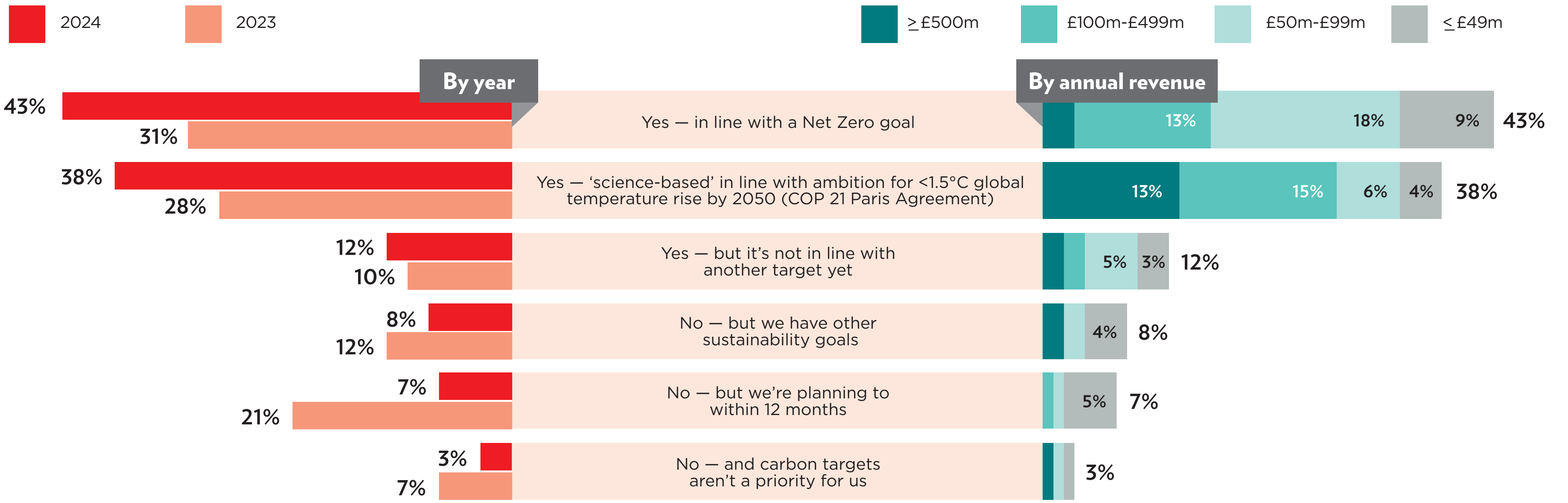
More than half of leaders say the firm now has an independent ESG committee to discuss areas and make recommendations



The law firm Cripps achieved B Corp status at the start of 2024. Beatton says: "As well as driving continuous improvement — with recertification every three years — it's an excellent route for engagement with people at every level. You can start with some relatively straightforward changes that improve the score but will then be challenged to keep improving." Alongside clear responsibilities for different pillars of progress, Cripps also created the new role of 'purpose and impact manager' to steer the project.

Has your firm formally committed to any carbon-reduction targets?

Almost half of leaders now say their firm has an official target to reach Net Zero carbon emissions



WORKING ON WELLBEING

But the action that leaders are most likely to say their firms are taking concerns the performance of their own people — investing in packages of wellbeing support. The experience of working through the Covid-19 pandemic arguably increased awareness that a productive and positive organisational culture depends on a well and connected workforce, particularly with the possibility of more remote work — and the significant business risk burnout can bring.

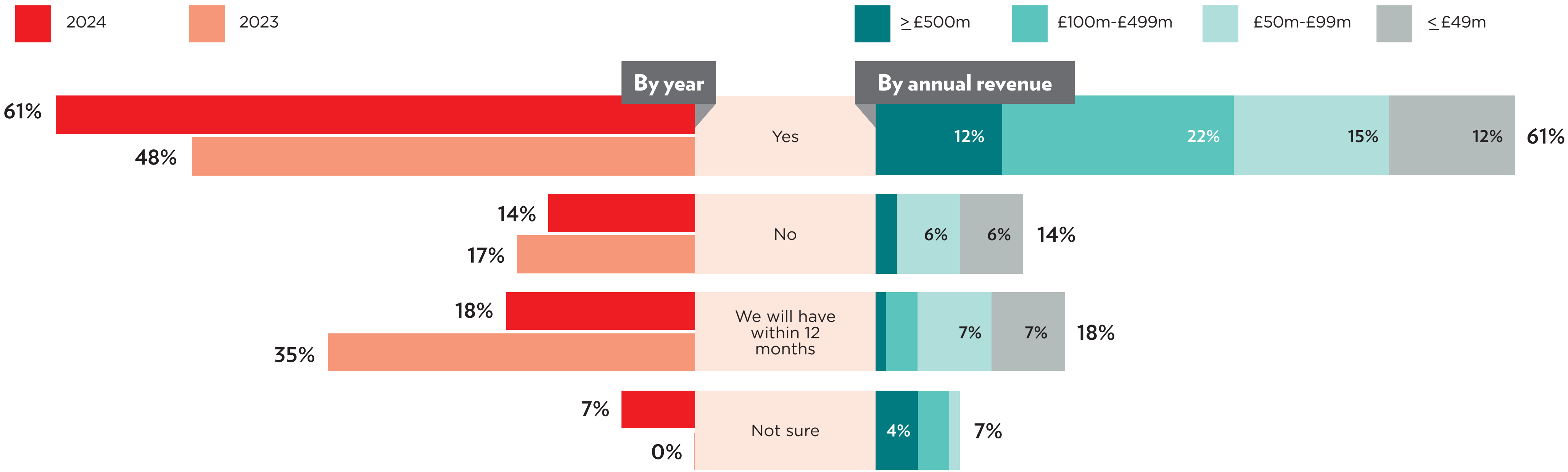
Beatton continues: "Professional services is a typically stressful environment and it's important people talk about it more than was once the case. All employees have access to confidential wellbeing support as part of private medical cover, and we provide additional support where there's a case for doing so. Wellbeing is widely promoted in the business, with a board sponsor, activities and discussion groups on a regular basis."

Pollins at DMH Stallard adds: "High retention flows in part from a decision to offer everyone in the business a sensible work-life balance. You cannot just pay lip-service to that — teams need to be empowered, and trusted, so no looking over shoulders to check the hours people are working, what they're wearing, and so on. Attitudes have changed, and firms must agree a mature policy for flexibility — and this also carries significant commercial advantage."

Also suggesting an increasingly robust approach to the management challenges perhaps, three-fifths (61%) say the firm now has at least some specific firm-wide KPIs for ESG in place — up from 48% in

Do you have specific firm-wide KPIs to set and track progress against your ESG goals?

Three-fifths of leaders say the firm has ESG-focused performance indicators in place — up from just under half in 2023



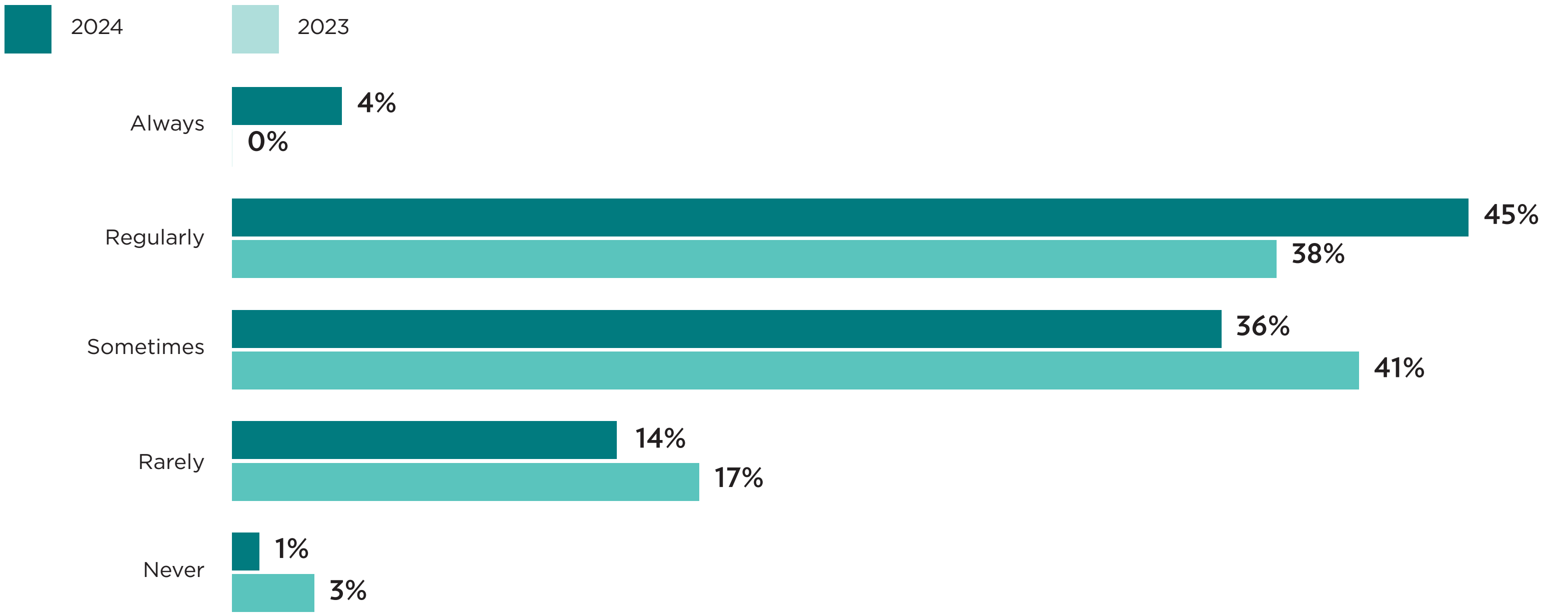
2023. Then a third expected some to show within 12 months, and this has fallen to 18% — so plenty have made progress. Only 14% now indicate they've no plans in this respect, with 7% unsure. Finally, almost half (49%) say their clients "always" or "regularly" enquire about such targets and wider ESG policies before instructing them — and it's increasingly rare that this is "rarely" the case (14%).

Sparkes says the sector is rapidly adjusting to a need to be more public-facing — which may change how some matters are reviewed, as well as conversations about the process. "Some clients also expect more bespoke work, covering the value-add on top of essential fulfilment of requirements — many firms are now selling ESG-related services," he explains. "The scope of reporting demands, legal and non-legal, continues to widen — and firms cannot be transparent and accountable without targets." He says that resourcing management of the consistency and delivery of timely, meaningful ESG data across the business is key — in some cases there are different rules and norms in different jurisdictions — and "speed of access" to the information is often a challenge. Meanwhile, leaders also need to consider how achievable or ambitious their targets should be through a public-facing lens.

Penningtons Manches Cooper recently saw its target of Net Zero by 2040 approved by the Science Based Targets Initiative (SBTi). CEO Helen Drayton says: "Absolute commitment is what our clients and our people expect — and it's also important for us to stay at the forefront. Sustainability runs all the way through our decision-making, including engaging

To what extent are clients assessing your ESG policies and targets when deciding whether to work with the firm?

Half of leaders say clients either 'always' or 'regularly' now want information about their ESG-focused actions



with suppliers, taking on new space and monitoring positive progress.

"Ensuring opportunities at the firm for as broad a spectrum of talent as possible is another key driver for me. We're beginning to see benefits from a programme to attract more people from minority-ethnic backgrounds onto the firm's vacation schemes — which feed a lot of training contracts — in particular." The firm has also equalised its parental leave offer to help more fulfil their full career potential.

Four-fifths (82%) of leaders in 2024 agree their firm is pushing to support more diverse pipelines of talent through to the most senior leadership or other strategic positions (p28). Walker-Smith at Ampa concludes: "Key is measuring outputs and creating level playing fields, ensuring processes for development and progression are transparent and fairly assessed, and that everybody has the same opportunities, but beyond that it remains merit-based. There's no room for any tokenism, which would make matters worse medium-term."

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"Following a challenging period that has seen the legal sector demonstrate considerable resilience, law firms are hugely confident about the market outlook for 2024-25. Of course, some clear and obvious challenges remain. As firms look to seize growth opportunities through diversification at home and internationally, they face ongoing challenges in finding and retaining the best talent. Meanwhile, continued macroeconomic uncertainty, rising market competition and ever-changing cyber risks are also high on the agenda as they navigate the shift from resilience to opportunity. However, as they seek this transition, we are pleased to see our clients' continued focus on ESG, which we are confident will provide the foundation for a successful future."

Stuart Tait
Head of Commercial Banking
HSBC UK

HSBC UK