

## After 35 Years, Now What's Next for Law Firms?

By [LawVision](#) on July 9, 2024

By Co-Founding Principals [Susan Raridon Lambreth](#) and [Joseph Altonji](#)

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Co-author [Susan Raridon Lambreth](#) wrote an article for the American Bar Association Journal (ABA Journal) in 1989 about the future of law firms over the next 50 years. At the time, many other state bar publications published versions of the article as well. So, interestingly, because Susan mentioned artificial intelligence, way back then, the Cincinnati Bar Journal reached out a few months ago to ask her to update it in light of what has been going on with generative AI the last couple of years. Susan invited [Joe Altonji](#), her colleague and business partner of the past 30+ years, to help with the update since they have different areas of expertise. Here is the update and, if you are interested in what was going on back in 1989, take a look at [the original article](#). But, unless you were in the industry back then (or close to it), it may not mean much to you – though you may find parts of it humorous in contrast to what is going on in BigLaw today.

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The pace of change today is such that had we known back then how rapidly technology would advance, we probably would have shortened the time horizon significantly. Which brings us to 2024. In addition to new technologies, we certainly could foresee an era in which innovative business models would emerge to compete with traditional law firms. We just didn't know which business models would emerge and dominate.

There were some unexpected twists and turns. If you were around back then, did you ever think that...

- The world's largest firms would include 1000's of lawyers in dozens of countries, with the largest veriens exceeding 10,000 lawyers? And the highest revenue firms would exceed \$5 Billion in revenue?
- Some of the venerable institutions like Dewey Ballentine, Strook Strook & Lavan and Bingham McCutchen would no longer exist?
- Partners in top firms would command fees in excess of \$2500 an hour and some associates \$1,000?
- Alternative legal service providers (ALSPs) would embrace advanced technologies, providing services faster, better and cheaper, and siphon off billions of dollars of traditional law firm work?
- Legal operations – running the law firm or the law department as a business – would take on a life of its own, increasingly important for optimizing legal services and improving service delivery?

Still, some of our other predictions did materialize. We nailed it when it came to the omnipresent use of computers and the fast availability of information. With all this technology, however, we thought that society would become less litigious. That hasn't happened. The demand for legal services has grown even as the field has become more competitive with increasingly sophisticated clients and new competitors. Fortunately, innovation within the industry has come to the rescue, helping law firms manage costs more effectively than ever. Amidst rising costs and spiraling associate salaries, that's good news.

### That Was Then, This Is Now

Some of our predictions may continue to alter the future. These include the following:

**Publicly-held law firms:** The trend for publicly-held law firms, which we expected to accelerate through the years, hasn't gained much momentum in the US. While it is allowed in the UK, Australia, and other jurisdictions, the ABA prohibited public ownership in the US under the Model Rules of Professional Conduct. However, some states like Utah and Arizona are pushing the boundaries and exploring regulatory changes. The jury is still out on where this will ultimately lead.

**Competition:** Although the anticipated competition from publicly-held law firms has not impacted Big Law at all, what did occur was the emergence of the aforementioned ALSPs, catching some firms off guard and scrambling to adopt a strategic response. Firms have responded in various ways, including competing through their own brand of innovation and efficiency initiatives – sometimes in the form of a captive ALSP. These approaches to competition may include, for example, the implementation of legal project management, process improvement or investments in technology. Many law firms have also identified opportunities to collaborate with ALSPs to reduce their costs. Even more important than the competition from ALSPs is the competition with other law firms. Increasingly the largest firms (in the US called the “AmLaw 100” and within that the top 50) are pulling away in terms of profitability and rankings from the rest of the AmLaw 200. As was predicted by some industry pundits in the mid-80s, there are definite “have’s” and “have not’s” among the medium and large firms.

**Growth and Structure of Law Firms:** In 2023 there were over 1.3 million US lawyers. Yet, that number has grown only 5% in the past decade. Compare this to the explosive growth between 1979 when there were roughly 500,000 lawyers and 1989 at 700,000 when the article was written – an increase of 40% in that decade. The stagnation of the lawyer ranks is likely due in part to the competition that makes law in general a less lucrative field relative to other professions compared to the 80s. Although first-year compensation in the leading firms is now north of \$250,000 with bonus, many lawyers in the US still earn an average of \$80,000. This is not a competitive salary compared to those commanded by recent grads in highly competitive and specialized fields like cybersecurity, software engineering, and investment banking – even without a graduate degree.

Despite the access to justice problem (A2J) in the US leaving many without access to affordable legal services, and a lower level of competitiveness for entering this part of the market (government, smaller firms, “hanging out the shingle”, etc.), this segment of the market does not attract sufficient, highly capable talent to address the significant needs. The A2J issue will likely be addressed by AI and professionals who are not lawyers providing some of the services and not those with a 3-year law degree as is usual now.

As mentioned above, large firms, on the other hand, have grown dramatically in size and profitability. We foresee continued consolidation. That's the big firms, though. Mid-sized and smaller firms, *as a group*, have experienced flat or declining growth in the last few decades. They have generally kept up with inflation but haven't seen the revenue or demand growth of the larger firms.

**Decline in Productivity:** With the implementation of new technologies in 1989, we predicted a positive impact on productivity – using the “real world” definition of accomplishing more in an hour of time. If that happened, rates could be higher to reflect this increased productivity. We projected that if law firms were going to preserve profitability, productivity had to improve to keep pace with higher labor costs at the time. While lawyers have, in fact, increased productivity as measured in a real economic sense, the legal industry measure of productivity – i.e., “how many hours are begin billed”, actually declined starting in the early 2000s and has continued its general downward trend ever since. We don't know how much can be attributed to generational differences, a lack of engagement, increased scrutiny of hours by clients, or perhaps fewer partnership opportunities (and a smaller percentage of a firm's lawyers are partners). We do know, however, that productivity (i.e., billing more hours), while a good thing for law firm profitability, shouldn't come at the expense of quality and employee well-being, which is increasingly important to today's young lawyers. There can be both.

This leads us to two of the most critical issues we identified back in 1989. These two issues, artificial intelligence and talent, will have the greatest impact on how firms deliver services in the future.

## Artificial Intelligence

Artificial intelligence gained significant traction in law firms in the 2010s. But we called it back in 1989. In the past, the scope was narrow and limited to tasks like e-discovery and legal research. This was no small advance since traditional approaches to discovery, for example, involved extracting data from multiple points and converting it to usable formats even before large teams of lawyers and paralegals could manually review the data. Both the investment of time and labor and the rate of human error in these now-obsolete practices made discovery a costly process. E-discovery, using earlier forms of artificial intelligence, dramatically changed the preparation for litigation and the types of matters that could be cost-effective. Other uses of technology reduced the need for lawyer time – perhaps another reason for the slowing growth in the profession.

Today, generative artificial intelligence can go much further by actually generating new content. This content mimics human creativity and intelligence, thus saving lawyers time and reducing client bills. Notice that we used the word ‘mimic’ rather than replace. AI is not able to replace humans – yet. Still, the fear is that artificial intelligence will further reduce the demand for lawyers. This has always been an underlying concern whenever new technology is introduced. Will people become obsolete? Artificial intelligence may not replace lawyers overall, but it does have the ability to transform the legal industry and replace many tasks currently handled by lawyers or other legal professionals. Lawyers will be needed less for routine tasks like research and review and more for their deep, nuanced understanding of the law, client advocacy, and ethical judgment. What that will mean for the future of lawyer formation we don’t know but it likely is not good news for the younger members of the profession – at least based on the roles many junior lawyers trained on.

Rather than replacing lawyers in the near term, AI will supplement their work, making them more efficient. This isn’t just opinion, it’s what we see in practice today. [A Harvard Business School and BCG consultants study](#) involving the University of Minnesota Law School, found that students using AI complete work faster with similar or higher quality and they may even earn higher grades. Of course, it is still important to have a solid understanding of the topic to recognize whether the outputs AI provides are valid.

As a headline in the Harvard Business Review aptly explains “AI won’t replace humans – but humans with AI will replace humans without AI.” A sustainable strategy in any law firm is to find the best ways to unleash the power of AI before, or at least alongside, the competition.

## Talent

Talent is the other challenge most likely to affect how law firms prosper in the future. As predicted, talent has become increasingly important over the decades. Growth in the profession is relatively flat and, as mentioned, there are other options to earn a similarly high income today. The younger generations have presented some interesting twists. Baby Boomers are reaching retirement age although they have been, for various reasons, slow to leave the workforce. Next up, Generation X, a much smaller cohort, which largely supplied a dwindling population of new lawyers prior to 2010. Then came the Millennials, a surprisingly large generation that is changing law firms with an emphasis on work-life balance, personal growth, inclusion and social responsibility. For this generation, there are fewer opportunities to become partners, exacerbated by the sheer size of the cohort. And, then there is Gen Z – a group that demands attention and input into their organization’s priorities and decisions and is increasingly intolerant of free speech and other viewpoints. At the same time, they have the highest levels of mental health issues of any generation in history – coming into a profession that already has one of the worst percentages of substance abuse and mental health issues. Keeping this cohort engaged is

currently one of the biggest challenges law firm leaders face.

Today, the challenges are to attract, train and retain top talent and provide fulfilling opportunities for career advancement and the work-life balance that lawyers want and need. How will the partners of the future be trained when they are working remotely, using technology to replace tasks lawyers historically trained on and perhaps not working enough hours to “learn their craft” – at least at the pace in the past? Part of the solution lies in using technology wisely and managing talent as a valued asset. Competition is stiff for top talent and the demand for inclusion is stronger than ever. The Boomers are indeed retiring and the business of law is becoming increasingly complex. Firms must find sustainable strategies that engender client loyalty, ensure continuity and transfer of knowledge, provide efficiency and promote the quality service delivery upon which world-class reputations are built.

### **Beyond 2024**

The future of law firms remains bright even in a changing legal ecosystem – at least for those willing to embrace and engage the key challenges we face. Now more than in 1989, firms must invest in the right talent, make strategic use of technology, and manage the firm intelligently.

### **About the Authors**

**Susan Raridon Lambreth** is a co-founding principal of LawVision and the founder of the LPM Institute. She leads the LawVision Practice Management and Legal Project Management practice. She has over 30 years of experience as a consultant to the legal profession and is widely recognized as a thought leader in practice management, legal project management and leadership in legal organizations. She has consulted to half of the “AmLaw 200” on practice management issues – helping to set up or refine their organizational structure and/or training their practice group leaders. She has trained over 10,000 lawyers and other legal professionals in leadership or management skills. Susan is the author of nine books, four on practice group management, four books on legal project management, and one on legal operations published by Practising Law Institute. **Click [here](#) to read more or connect with her on [LinkedIn](#). Email: [slambreth@lawvision.com](mailto:slambreth@lawvision.com).**

**Joseph Altonji** is a co-founding Principal of LawVision and a senior strategic consultant and advisor to the legal industry. He works with firms of all types and sizes to assess and define their strategic positions, align firm structures and processes with the strategy, and advance their strategic initiatives, including mergers and combinations. In addition, he advises firms in crisis situations, helping them reestablish economic and practice stability, and long-term strategic integrity. He is a frequent author and speaker on topics related to law firm strategy, governance, compensation and economic performance. For over 30 years, Joe has counseled hundreds of law firms, successfully addressing their most important boardroom level challenges and opportunities. **Click [here](#) to read more or connect with him on [LinkedIn](#). Email: [jaltonji@lawvision.com](mailto:jaltonji@lawvision.com).**